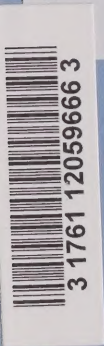


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ONTARIO IN A CHANGING CANADA

An Overview of Ontario's Intergovernmental Relations 1980-1981



Ministry of
Intergovernmental
Affairs

June 1981



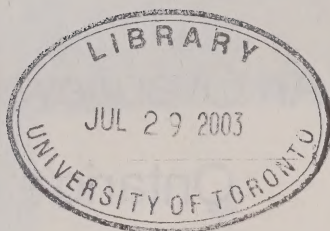
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ONTARIO IN A CHANGING CANADA

An Overview of Ontario's Intergovernmental Relations 1980-1981





Summary

- . This report surveys the major intergovernmental events of 1980-1981 and establishes the relationships among governments in Canada. It identifies dominant trends and suggests some implications for Ontario.
- . Part II of the report contains a detailed review of the issues and expected events in those functional areas of the Ontario government in which intergovernmental relations are prominent.
- . The issues and government positions expected in 1981-1982 will find Ontario increasingly isolated from a common identity with other provinces on many major issues, yet with an economy vulnerable to energy price and inflation fluctuations.
- . Moreover, the federal government is unlikely to identify closely with Ontario's interests, lacking the fiscal resources for industrial adjustment, and wary of further alienating the West with policies perceived as favouring central Canada.
- . Interprovincial revenue sharing, although a high priority for Ontario, will be a matter of confrontation rather than cooperation: the Canadian common market is weak, the benefits and burdens of energy are unevenly distributed, and many provinces are hostile to federal leadership.
- . A survey of intergovernmental events in 1980-1981 reveals the following trends and patterns:
 - federal leadership is being reasserted "in the national interest" and challenges the unrestrained growth over recent years of regionalism and Quebec nationalism;
 - western provinces are alienated from the federal government sparked by its unilateral action on the constitution and the National Energy Program;
 - a newly re-elected Quebec government is still fundamentally committed to separation but for tactical reasons is willing to support the West in its anti-federal positions rather than remain with the traditional central Canada axis;

- fiscal disparities are increasing among provinces, principally related to the uneven distribution of benefits and burdens of rapidly increasing energy prices;
 - fragmentation and deadlock is dominant in multilateral attempts to establish a Canadian constitution, energy and economic policy.
- . Ontario's response in 1980-1981 has been threefold:
- to argue for strong federal leadership on inflation, a common market, energy pricing and revenue recycling, and to break the constitutional deadlock;
 - to cooperate with the other provinces in their endeavour to clarify a number of their functions and limit unilateral and increasing federal intrusions in a variety of particular functional areas;
 - to respond to Quebec and western concerns by proposing better influence of provinces generally in central decision-making.
- . This year, Ontario's intergovernmental strategy will have to respond to:
- the completion of energy negotiations with Alberta,
 - the renegotiation of fiscal arrangements,
 - the absence of interprovincial concern for Ontario's industrial problems, and,
 - the need for Ontario to claim its entitlement to equalization payments.
- . Constitutional discussions on natives and provincial alternatives to the Victoria amending formula will take place in the next year if the current constitutional resolution is passed by the British Parliament.

- . The Province can expect the federal government to press a broad strategy for asserting its visibility and accountability in programs jointly funded with provinces or in new direct spending.
- . In equalization and energy negotiations, it will be difficult for Ontario to secure a response to its economic needs either from other provinces or the federal government, as they do not share common objectives with this Province.
- . To influence events, Ontario's bargaining lever could be its position on energy pricing. If it were to concede higher energy prices, faster, this would meet federal interest in greater revenues and the western interest in extracting maximum financial benefit from a depleting resource. While the result would be to widen the revenue disparity among provinces, it would even more forcefully establish the grounds for a response to Ontario's industrial difficulties.
- . Operating ministries will find deadlock in the broad issues of energy, constitutional reform and fiscal arrangements affecting negotiations in their functional areas. Provinces are refusing agreement in specific areas until these jurisdictional (energy, fiscal, constitutional) matters are settled. This, counter-balanced by federal restraint in joint programs and a new assertiveness in unilateral actions, contributes to an environment in which intergovernmental tensions are dominant and agreement is at a premium.

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I THE THEMES AND TRENDS OF INTERGOVERNMENTAL RELATIONS

A. THE MAJOR EVENTS AND THEMES OF 1980-1981

1. Introduction

A recurring theme in Canadian intergovernmental relations has been the conflict caused by contending governmental efforts aimed at province-building and nation-building. The Task Force on Canadian Unity labelled these contending forces regionalism, dualism, and nationalism, with one or several in the ascendancy at any particular time. In recent years, regionalism and its Quebec variant, dualism*, have had the upper hand, creating a strong decentralist trend in Canadian politics and resulting in a weakening of the central government's influence, scope, and leadership.

Unavoidably, Ontario has been drawn into both supporting and challenging centralizing and decentralizing influences. For this Province, the need to reduce the discrepancy in fiscal capacity among provinces and the need for national attention to industrial readjustment and a common market have made an active federal government and interprovincial collaboration high priorities. Yet, this activism tends to be unilateral, and what collaboration occurs frequently detracts from a cohesive federation. Paradoxically, Ontario is faced with a tide in the economics of Confederation that requires greater intergovernmental cooperation, yet a fragmentation in politics that finds regions unable to agree with one another, or with the federal government.

The consequence is that program ministries find larger issues, beyond those of their functional responsibility, now tending to impede, pre-empt, or paralyse the achievement of intergovernmental harmony in their areas. A special emphasis, therefore, is placed upon understanding and anticipating the overall directions in Confederation. This paper examines the relationship among the governments of Canada as shown in recent events and attempts to clarify Ontario's role in that relationship.

This term, for the PQ government, connotes not merely bilingualism but encompasses provincial autonomy in cultural, social and economic matters as well, hence its similarity to regionalism.

2. Background

The fiscal year 1980-1981 represented a critical turning point in the federal-provincial relationship. Provincial ascendancy and the trend towards decentralization reached their highest point in that year, only to be challenged by a strongly resurgent federal government. Throughout the 1970s, cooperative federalism had been dominant. The deconditionalizing of shared-cost programs under the Established Programs Financing Agreement, joint federal-provincial actions to combat inflation, joint exercises in disentanglement, and prolonged discussions on constitutional reform characterized the decade. Provincial functions were indeed actively extended and the federal government showed greater respect for provincial jurisdictions, but these developments were balanced by strong federal economic leadership in the wage and price controls period.

However, the inability of the federal government to promote equal opportunity in all parts of the country and a heightened regional consciousness became apparent: the Parti Québécois was elected in 1976, the western provinces collected windfall revenues from steeply increased energy prices, economic growth and profitability were eroded by inflation, and provincial barriers to the mobility of goods, services and labour increased. As the federal government became increasingly preoccupied with regionally contentious issues such as energy, Quebec separatism, and constitutional reform, its attention was deflected from national leadership on economic problems such as inflation, unemployment, stagnation, and interest rates.

Two events in 1979 perhaps highlighted the evidence of strong and deepening centrifugal tendencies. In November 1979, the Quebec government released its White Paper proposing sovereignty-association as a replacement for Quebec's continued membership in Confederation. The rise and fall of the Clark government also highlighted inter-regional tensions. The new government had shown a strong disposition to favour provincial interests, and many Westerners felt that its energy policy and budget showed it to be a national government favourable to western claims. Its parliamentary and subsequent electoral

defeat was thus seen as a rejection by central Canadians of legitimate western concerns. Elsewhere in the country, the defeat was explained by the unwillingness of the Clark government to mediate fairly the competing claims of all regions. Clearly, events immediately prior to fiscal 1980-1981 pointed repeatedly to a fragmentation of pan-Canadian interests.

For Ontario, this period represented a time of lost opportunity at the federal level, where neither economic leadership nor energy policy was established. For this Province, in the midst of significant industrial adjustment, these circumstances prevented a proper federal-provincial collaboration on Canada's economic objectives.

3. The Federal Leadership Thrust

In these circumstances, Canadian unity came to be a prevailing preoccupation of 1980-1981. The Liberal government, returned under Prime Minister Trudeau in February 1980, decided that the trend to provincialism had eroded the sense of a common Canadian identity, a common market, national standards, and a clear role for the federal government. Among the many factors responsible for decentralization, the federal government singled out the following as requiring strong federal counterthrust:

- . a growing discrepancy among provincial revenues and growth based on the benefits and burdens of rapidly increasing energy prices;
- . the greatly increased cost to the federal government of its interprovincial equalization and energy import compensation programs caused by rising energy prices and reduced industrial activity; at the same time, the federal government did not have adequate tax access to the windfall revenues accruing to provincial governments;

- . the inability of the federal government to initiate new spending programs because of the size and growth of its deficit, and the corollary need to examine closely all federal expenditures, including those made unconditionally to or jointly with the provinces;
- . the increasing fragmentation, self-interest and deadlock among governments that impeded attempts to reform the constitution and establish an energy policy.

As a result, the major feature of 1980-1981 intergovernmental relations was the Trudeau government's decision to secure and broaden the federal role in the face of unrelenting and strong regional economic and cultural interests. The federal role was broadly defined as a responsibility to ensure the sharing and balancing of regional growth, the maintenance of national standards in public services, the redistribution of income among peoples and governments, an effective response to profound economic adjustment required by energy mega-projects and industrial retrenchment elsewhere, and the constitutional entrenchment of rights and freedoms, including language rights.

After diagnosing Canada's problems in terms of inadequate national leadership, the federal government determined to reassert the above features of "the national interest." As federal Ministers express it, this mandate takes the form of decisive action by the federal government to assert its place forcefully, aggressively, and if necessary, unilaterally. The provinces, correspondingly, find themselves faced with a federal government less concerned about clear divisions of power and less respectful of provincial jurisdiction. Parliament, rather than intergovernmental conferences, becomes the body that defines and determines the national interest; federal-provincial cooperation, while still desirable, is not necessary.

In 1980-1981 this approach was reflected in three significant developments:

- . After extended deadlock with Alberta over energy pricing and revenue sharing, the federal government introduced the National Energy Program designed to give it access to energy revenues through a new unilateral scheme to tax provincial resources directly;
- . As a response to the size and growth of its deficit, the federal government has shown a willingness to terminate or severely constrain funding in shared-cost programs and to reintroduce controls and ceilings in the areas of unconditional financing covered by the 1976 Established Programs Financing Agreement;
- . The federal government decided to proceed unilaterally with a limited package of constitutional reforms in the wake of intergovernmental deadlock, in spite of the active opposition of eight provinces. While it can be argued that these reforms do not affect provincial jurisdictions directly, this step breaks with a tradition of unanimity as the basis for pursuing constitutional reforms.

These federal initiatives in energy, fiscal and constitutional matters during 1980-1981 show signs of being extended to other programs. Based on evidence in the areas of pensions, bilingualism grants, manpower, housing, energy conservation and emergency planning, it appears that new federal initiatives do not respect provincial jurisdiction in their pursuit of an overriding "national interest."

As well, the federal government is demanding the right to set the goals and objectives of nationally-funded programs that the provinces have recently executed with increasing independence. Federal Ministers have stated three general objectives: visibility (high profile federal expenditures directly impacting on the public), credibility (federal programs consonant with federal priorities), and accountability (measurable, immediate results of a program's efficient performance).

4. Ontario's Response

The major intergovernmental issues of 1980-1981, whether separatism, economic regionalism, or the expression of national identity, have surely tried Ontario's implicit objective to balance the contending province-building and nation-building forces. The unrelenting, and perhaps even accelerated, expression of distinctive regional, economic, and cultural interests, while an important attribute of Confederation, has brought to the fore the question of whether Canada can retain the will and capacity to act as a nation and still respond fairly to the interests of all regions and provinces.

Unlike many other provinces whose strategies increasingly have tended towards a single intergovernmental objective such as sovereignty-association, rejection of federal leadership, or unqualified control over provincial resources, Ontario's position in intergovernmental relations remains more complex and multifaceted. There can be no question that this makes the presentation and execution of Ontario's objectives more difficult and subject to misinterpretations. In moving from a period largely concerned with clarifying provincial jurisdiction to one in which federal support for provincial development must be considered more acutely, provincial ministries may find themselves facing difficult choices when they consider specific intergovernmental issues.

For example, Ontario has accepted much of the federal diagnosis concerning the fragmentation of the national purpose in Canada. Furthermore, Ontario recognizes that the stresses of economic and energy developments in recent years have heavily burdened the composition and operations of its manufacturing and industrial sectors, requiring an adjustment process in which the federal government must play a significant role.

At the same time, the Province does not support entirely the solutions devised by the federal Cabinet. Ontario has been more willing, for example, to acknowledge that a response to strong regional and linguistic identities must entail a greater accommodation of differing regional aspirations. Furthermore,

as suggested in detail later, Ontario is unlikely to accept wholesale disregard for federal and provincial jurisdiction as a means of redirecting and retuning shared-cost activities to contemporary needs.

Accordingly, a survey of Ontario's responses to the major intergovernmental events of 1980-1981 reveals the Province working in specific issues towards a balance between both province-building and nation-building. Because the exercise is exploratory and tentative, the Province has attempted to proceed first on the basis of some general principles:

- . retain a strong national government, but with improved regional representation at the centre;
- . pursue a national economic policy that ensures the federal government has the jurisdiction and fiscal capacity to deal with national scale issues, but with enhanced regional development based on comparative advantage and a Canadian common market;
- . enhance and clarify provincial powers while recognizing that, where they clash (such as on the distribution of energy revenues), national interests must temper regional interests;
- . pursue comprehensive constitutional change that embraces rights, powers, institutions, and process, but recognize that some concrete results, even if partial, must occur in reasonable time.

It is clear that in each of these broad objectives there are contending centralist and decentralist perspectives, requiring judgement in individual situations as to the kind and degree of balance favoured by the Province. This can be better illustrated in the case of three broad positions advanced by Ontario in 1980-1981: the need for federal leadership, a better sharing of the burdens and benefits of Confederation, and the importance of constitutional reform.

a) The need for federal leadership

While Ontario has challenged specific federal policies and actions, it has recognized the right of the federal government to be active in the areas of economic, fiscal, energy and constitutional policy. In other words, the Province does not accept the argument that Confederation is merely a compact of sovereign provinces, with the federal government incapable of independent action in the absence of interprovincial consensus. Yet, while Ontario often accepts the federal diagnosis of national problems requiring national action, it has been discriminating as to the form of that action.

Moreover, careful distinctions can be made between the type and circumstance of federal initiative. In cases where only decisive national action can respond creatively to inflation, unemployment, barriers to a Canadian common market, or the differential burdens and benefits of the energy situation, and where intergovernmental disagreement frustrates this response, it is appropriate for a unilateral federal energy or industrial policy to be undertaken.

In other circumstances, where federal action would not be exclusively within its own jurisdiction, such as with constitutional reform, cooperation and consensus among governments are the preferred objectives. Unilateral federal action would only be proper as a means to break prolonged intergovernmental deadlock, and then only where provincial functions would not be significantly affected, and provided a broad base of support existed in Parliament for federal action in the national interest. In last year's constitutional discussions, for example, some provinces held out for concessions on issues essential to them, and were unwilling to reach consensus where it was possible. In such circumstances, the federal government was justified in acting unilaterally, after full parliamentary debate.

It is a matter of sensitivity and balance to establish the appropriate place where the federal government must assert leadership in the absence of provincial consensus or approval. Despite its advocacy of a strong national government, Ontario,

along with other provinces, has urged more joint policy-making (as in the formulation of Criminal Code amendments) and protested unilateral federal abrogation of shared-cost arrangements (as with the cancellation of the Community Services Contribution Program). Moreover, there are disturbing signs that the federal government is prepared to ignore past perceptions of appropriate federal and provincial roles in its pursuit of new federal priorities in such areas as pensions, shelter allowances, and expenditure constraints on joint programs.

In considering the "national interest" and determining the propriety of federal action, it is important to distinguish between problems which are common across the country and those causally related one to another, or integrated.

- "common" problems are issues that, although they are found in many parts of Canada and in aggregate occur nationwide, do not relate directly one to another, and thus can be handled by discrete provincial action, e.g., the need for public housing.
- "integrated" national problems cause related effects from one region to the next. Here, one coherent national policy is required if the problem of lax control in one region is not to spill over into other regions, e.g., drug and food products standards.

It is tempting but simplistic to say that a problem becomes national if it cannot be effectively handled by any one region. However, once common but self-contained regional problems are thought of as "national" (as regionally common and interrelated problems are properly termed), then there are few substantive topics incapable of becoming the legitimate concern of the central government. This is the current confusion that appears to be the basis for the indiscriminate extension of federal action.

b) A better sharing of the burdens and benefits of Confederation

Ontario supports those federal programs which seek to achieve a more balanced level of new economic activity and opportunity throughout Canada. Traditionally, these have included DREE initiatives, manpower training and mobility schemes, equalization payments and selective industrial policies.

During 1980-1981 there has been a firming up of two profound changes in Canada's economy: the shift westward of economic activity, and the prospect of a relative deindustrialization in central Canada (because of lower tariffs and diminished production by Canadian branch plants due to slackened consumer demand and mounting inflation). In the last fiscal year, Ontario had the lowest level of per capita revenue of the provinces. For the last five years, Ontario has been technically eligible for payments under the federal equalization formula. A routine market and government readjustment of this situation has been made more difficult by the growth over time of provincial barriers to pan-Canadian economic activity and the inability of the federal government to sufficiently redistribute petroleum and gas revenues.

Accordingly, Ontario has pressed for a two-fold response. First, to enhance provincial economic opportunity generally by strengthening the Canadian common market. For example, the Province last year proposed a Canada-first purchasing policy which would replace imports with complementary Canadian manufacturing initiatives in all regions (such as hospital/medical supplies). Second, during constitutional discussions, Ontario joined with other provinces seeking the clarification and enhancement of provincial jurisdiction over natural resources, including offshore resources and fisheries, so that development could proceed in these areas.

The above developments would set the stage for enhanced economic activity in all parts of Canada. In tandem with them, the Province has advocated a better sharing of the burdens associated with the adjustment of industry to contemporary conditions. This is clearly most critical in energy policy.

Ontario has proposed a national approach that will ensure security and self-sufficiency of supply, at realistic prices, with a just sharing of revenues to the industry and to the provincial and federal governments. It follows that there will have to be an enhancement of the federal fiscal capacity to gain access to these revenues and to redistribute them through an up-dated equalization scheme or a new two-tier scheme.

c) The importance of constitutional reform

In the context of energy and economic issues, constitutional matters may seem less immediate and more symbolic. Yet here too, the Province actively pursued a path between centralist and decentralist objectives. In the end, when there could not be intergovernmental agreement, Ontario supported the federal government's constitutional resolution because unanimity was an impossible goal among so many conflicting interests and because what consensus could have been reached was denied by governments holding out for unrelated concessions in areas of prime interest to them. Ontario argued that the basic issues of patriation, a charter of rights, equalization payments and a flexible amending formula were above the specific issues of powers and institutions, on which governments could not agree.

Unlike most provinces, Ontario had few specific demands of its own to place on the table during the constitutional discussions. Instead, the Province identified its broad, general objectives, recognizing that negotiations would occur on these and additional issues. Premier Davis stated three objectives at the September First Ministers' Conference:

- . the constitutional entrenchment of a clear statement of democratic rights and freedoms;
- . the entrenchment of guarantees to education in their official language for children of minority language parents;

- . the guarantee of a Canadian economic union free of internal barriers, in which the benefits and responsibilities of economic development are fairly shared.

On some issues, Ontario lent its support to the provinces in order to achieve a better balance in the distribution of powers or more provincial participation in central decision-making. For example, in situations where national policy is essential but provincial powers might be altered or significantly affected, the provinces could be given direct representation in a reformed upper house that would shape the national policy. There might also be a better distribution of powers that would enable the provinces to do locally what heretofore had been done federally or was jurisdictionally unclear. Ontario supported provincial jurisdiction over cable television, ownership and control of offshore and natural resources (provided there was a role for federal redistribution of revenue), control of fisheries, and unified family law.

On other constitutional issues, Ontario aligned itself with positions that could strengthen national action. In addition to the provisions for federal economic leadership and reduction of barriers to interprovincial commerce, this would include a flexible amending formula (respecting regional vetoes but not paralyzed by a need for unanimity), enshrined fundamental democratic, legal, and linguistic rights, and a commitment to equalization.

5. The External Dimension

This paper is concerned with intergovernmental relations in Canada and it is obvious, perhaps, that these "domestic" relations - the very substance of Canada's government and politics - will have an impact on Canada's external relations, its foreign policies and its image abroad. So, too, are Ontario's external activities influenced.

There is a paradox in the conflicting pressures on Ontario's activities and relationships outside Canada. The Province supports the image of an effective, unified, and vigorous Canada to attract trade and investments. At the same time, it recognizes a need to act on its own account to protect and support its own interests.

The necessity and opportunity for the provinces to act outside Canada to serve their own interests has been increasingly apparent. There are two causes, neither of which Ontario has sought and neither of which the Province desires.

Intergovernmental relations within Canada have detracted from Canada's international effectiveness in various ways during the past two decades. The events of 1980-1981 have carried the process further. Not only is the image of a united Canadian entity severely damaged, but the coordination and determination necessary at the national level (within the Canadian government) to act externally on behalf of all of Canada - of every part of the nation - is still lacking. The picture is hardly disastrous or chaotic; it is, however, one of unevenness and of an apparent lack of direction.

Three examples of federal government unevenness in leadership and coordination can be given:

- . In the manufacturing sector, an effective national coordination and portrayal of Canada's collective interests and concerns has not been accomplished. There has not been any indication that a strategic plan or program for delivering the various manufacturing opportunities (or problems) to other countries is seriously contemplated. As a result, individual provinces have pushed their own concerns whenever an opportunity has been presented.
- . On the environmental side, "acid rain" continues to be a serious problem. Some jurisdictions in the United States either do not acknowledge it as a problem at all, or will not act firmly to prevent it. Canada's Department of the Environment has not coordinated a national acid rain program and External Affairs has not yet played a leadership role in communicating the seriousness of the problem to the United States.

- . Canada's international cultural relations are not being used effectively as an instrument of foreign policy because External Affairs has not fitted cultural relations to strategic goals abroad or informed the provinces what those strategic goals are. Cultural programs are thus ad hoc and not integrated into a set of national objectives abroad.

Most provinces, recognizing their own international interests and the inability of the federal government to protect or advocate all of those interests equally well, have taken recourse in international efforts of their own. Some provinces have clearly been more active and successful than others.

The result for Ontario has been an awkward one. A lack of foreign policy coordination and international activity leadership nationally, with a weakened Department of External Affairs no longer dominant within the federal government on questions of foreign affairs, has brought the Province one set of problems. Sister provinces, on the verge of competing openly with one another and with Canada, have brought a different sort of difficulty.

Two complicating factors add to the difficulties which exist in the extension of the country's intergovernmental relations onto the external front. The first, although by now a cliché, is nonetheless of some significance for the provinces. The fact is that, as the world grows smaller, international relations are generally becoming increasingly active and more complex. The implication for Canada (and for its provinces) is that the international initiatives which will have the greatest success are those which are stated clearly and firmly and which are well thought out.

The second factor, stemming from the first, is that of the growing importance of and need for strategic planning. Incidents during the past year have underlined for Ontario the need for strategy in international affairs. For example, a Canada-United States strategy, by sector if need be. The optimum situation would be that Canada's foreign policy included strategies relevant to the provinces and that the

provinces had strategies which meshed with the national efforts. The examples quoted previously demonstrate a strategic lack at the national level but Ontario, for its part, has demonstrated a similar lack of strategic planning. Its relations with its closest and vitally important neighbour have been evidence of this.

The federal government has recognized the roles provinces will play outside the country. This recognition has been partly responsible for a hesitancy on the part of External Affairs to become overtly a "grand planner" in addition to being a formal coordinator and conduit for the purpose of diplomatic relations. Correspondingly, the pressure of time and fears of lost opportunities have pushed the provinces into external initiatives for which they are, in some ways, poorly equipped to carry through fully on their own behalf.

The picture which has emerged is that of an uneasy co-existence between the stronger provinces and the federal government. The degree of comfort in the arrangement depends on the subject matter (the degree of federal or provincial constitutional responsibility for managing the subject) and the personalities involved. What the picture points to is not only more cooperation and better coordination between Ottawa and the provinces. It points to a need for better planning both in Ottawa, and specifically in External Affairs, and in provincial governments.

B. FUTURE TRENDS

1981-1982 appears to be a strategy- rather than issue-dominant year in intergovernmental relations. Western provinces, particularly Alberta, the federal government, Newfoundland, and to a lesser extent Quebec, will be adopting a comprehensive approach to a range of issues: Quebec and the West will emphasize provincial autonomy, and the federal government will seek to become more predominant. Confrontational rather than cooperative federalism will result from these governments attempting to link individual issues to an overall strategy. This could be contrary to the interests of Ontario and several other provinces that prefer an issue-by-issue approach because intergovernmental compromise is thereby more likely. During the coming year, energy policy, fiscal policy, the constitution, and eventually pensions will be the dominant issues.

A. Issues

A. Energy policy

While there will likely be an oil pricing agreement with the West this year, Ontario will be concerned to find offsets for this province to the higher prices at a faster rate than the federal government is likely to accept. Such offsets will not in themselves resolve revenue imbalances, and there will be added problems if the federal government uses its share of a larger revenue yield for deficit reduction, own-account spending, and the western economic development fund, rather than industrial adjustment programs like BILD.

B. Economic/fiscal policy

The federal government is reducing its deficit by reducing transfers to the provinces through unilateral action (cancellation of Community Services Contribution Program) and negotiated action (Established Programs Financing). The October 1980 federal budget proposed a \$1.5 billion cut from the social policy envelope. There is internal conflict in Ottawa regarding how much of this reduction should be at provincial expense. A Parliamentary Task Force is holding

public hearings on equalization, EPF, the Canada Assistance Plan and tax collection agreements. This may allow interest groups to mount pressure against cuts to these programs, but also to argue for a renewed active federal involvement.

There is no evidence yet that the equalization formula will be significantly overhauled, despite the growing revenue imbalance among provinces and the inability of the federal government to close the gap. At present, the federal government has arbitrarily and unilaterally excluded Ontario from payment as an eligible province. Even should Ontario be included, the formula is currently insufficiently funded to be able to treat all provinces fairly on the basis of comparable need.

c) Constitutional reform

Two general issues will emerge in this area during 1981: the disposition of Parliament's constitutional resolution after the Supreme Court ruling, and the resumption of discussions on unresolved and undiscussed items.

One can only speculate about the federal government's actions following the Court's upholding or dismissal of the appeal on the constitutional resolution. Much could depend on the size and scope of the Court's majority opinion and the degree of action required. If the resolution is declared intra vires of Parliament, several opportunities for intergovernmental negotiations are provided for by the resolution; it makes mandatory two annual First Ministers' meetings to discuss Canada's native peoples and the Constitution, and the provinces are given two years to present an alternative amending formula to the modified Victoria formula now contained in the resolution.

There could also be a continuation of constitutional discussions concerning the Senate, a provincial role in the selection of the judges of the Supreme Court of Canada, powers over offshore mineral resources, fisheries, communications and family law, a preamble to the new Constitution, and a required federal role in such economic matters as securities and marketing boards.

d) Pensions

The federal government has set pension reform as its major social policy initiative and, although it recognizes the primacy of provincial jurisdiction in the field, should there be no consensus on reform objectives and timing, this could precipitate federal action to ensure the uniformity and mobility of entitlements.

2. **Strategies**

a) Federal

The federal government will continue to take an aggressive stance on energy policy and economic/fiscal policy as part of its strategy to reassert its place in Confederation. The federal government will feel less compelled to reopen the constitutional discussions (apart from the obligations undertaken in the current resolution) since the thrust of proposals in these areas are strongly decentralist or require federal-provincial agreement.

b) Quebec

Although the PQ government lost the sovereignty-association referendum on May 20, 1980, it did have the opportunity to propagandize and consolidate its support. The Parti Québécois campaign was based on the premise that the federal system denies Quebec the opportunity to preserve and extend its distinctive language and culture within the political boundaries of the province, and that the federal system systematically favours the economic growth of Ontario to the detriment of Quebec. An appeal was also made to ethnocentric pride and fears in which francophone Quebecers were told that their very existence was threatened by a flood of immigrants and anglophones who were antipathetic to the survival of the French language and culture. In constitutional discussions, Quebec pushed for additional powers on the grounds that they were needed for its cultural survival. The Province's virulent opposition to the constitutional proposal is based on the same argument.

The re-election of the PQ with an increased majority on April 13, 1981 may be viewed as another example of the familiar Canadian practice of having a strong government in Ottawa balanced by a strong government in the provincial capital, but a closer look at the election results presents a more worrisome picture for Ontario and Canada. In the course of the election campaign, Premier Lévesque said that independence remains the PQ goal, and although he promised that another referendum would not be held during his government's second term, he did raise the possibility of a snap election on independence within one to three years. Voters chose the PQ in full knowledge of their plans.

Equally significant was the large share of the franco-phone vote gained by the PQ in the recent provincial election, so large in fact that the provincial Liberal caucus has become almost an opposition of anglophones and immigrants. The Liberal analysis of their defeat confirms this perception; many feel that the Party lost because it ceded all the nationalist ground to the PQ and because the Party either attacked Bill 101 or vacillated on the important question of defending the French language.

The PQ will probably use its mandate to consolidate and extend the social reforms enacted in its first term, though severe budgetary deficits and high unemployment will continue to constrain it. In federal-provincial and interprovincial relations, Quebec can be expected to resist any changes forced on its language laws by the provisions of the Charter of Rights and to use Ontario's refusal of Section 133 language obligations as a propaganda tool in deepening the separatist base in the province. On all intergovernmental questions, Quebec will insist on a strict interpretation of the existing distribution of powers in order to give the province the greatest possible "autonomy" within the federal system. It may well renew its challenge of exclusive federal jurisdiction in international matters and will regard as intrusions the federal attempt to extend its direct influence in the Province in pursuit of accountability, visibility and credibility for federal actions.

In effect, the Quebec government will act in the next four years in ways similar to its actions during its first mandate: social and cultural development policies within the province, greater use of crown corporations to foster economic development coupled with constant attacks on federal economic policies, and a constant probing and testing of the limits of federalism to attempt to prove to Quebec voters that the federal system inhibits them.

c) The West

In addition to traditional grievances such as tariffs, freight rates, and political under-representation in Ottawa, western alienation is now focused on energy and other resource questions. Traditionally, the federal government and Ontario and Quebec have been the object of the West's complaints, but because Quebec has taken such a strong decentralist stand on all issues, including natural resources, the West's resentment is now focused exclusively on the federal government and Ontario.

It is unlikely that, within the coming year, the specific complaints of the four western provinces can be resolved to their complete satisfaction. There are, however, two issues which, if resolved in a manner considered equitable to western interests, could defuse much of the West's current feelings of alienation. These issues are energy and the reform of federal institutions.

Western producing provinces are looking for a solution to the energy question that offers little comfort to Ontario or the federal government. There is no indication that, even should they get agreement on substantially higher oil prices, western provinces would respond favourably to the establishment of a resource revenue pool for equalization payments. Moreover, Saskatchewan and Alberta continue to reject a federal role in recycling revenues, for they do not accept the principle of federal taxation of their natural resources.

While western Canadians would like to see a higher degree of representation in Ottawa, their provincial governments have used the current shortcomings in their influence in Ottawa to their political advantage. The gap between their rhetoric and support for specific changes may be closed only slowly.

Because of its stands on the energy question and constitutional reform, there is little sympathy in the West for Ontario's problems, and the Province will likely be a target of growing western discontent.

It will be important for the federal government and non-western provinces to realize that while the West will often present a common front on many issues, it is not a homogeneous entity. The freight rate question, for example, is of prime importance to the Prairies, while the energy disagreement is one involving mainly the three most western provinces. Similarly, while British Columbia, Alberta and Saskatchewan complain about the evils of the Canadian tariff, Manitoba is one of the beneficiaries, especially for its clothing industry.

d) Ontario's options

The issues and government positions mentioned above present a difficult situation for Ontario. As interprovincial interests regroup along the energy producer - energy consumer axis, and provincial self-reliance fragments the Canadian economic market further, Ontario finds itself increasingly isolated from other provinces on major issues, with a vulnerable economy, given energy price and inflation levels. For several reasons, Ontario cannot rely on traditional interprovincial or federal-provincial support for many of its interests.

First, there is little sympathy across Canada for Ontario's economic difficulties because the country's distinct regional economies and population concentrations produce such different needs. A major restructuring and readaptation of Canada's most industrialized and populous region evokes little sympathy in regions that consider they have been treated as resource hinterlands for this development.

Second, although Ontario's predominance in Canada's secondary and tertiary sectors makes the Province's ills federal ills as well, the mood in the rest of the country makes it difficult for the federal government to focus on Ontario-oriented issues since this Province has been considered the beneficiary of federal action on constitutional and energy matters. Given the weak representation of the federal government in the West and the need to temper western alienation, part of the federal answer (conditioned further by expenditure constraints generally) may be to do little for Ontario in lieu of increasing expenditures in the West. Moreover, at this time, Ottawa has not yet established adequate access to energy revenues to permit expenditures required by Canada's industrial sector, even should it wish to do so.

It might appear that Ontario should be able to share with Quebec a longstanding and common interest in industrial readjustment and thus jointly seek a better federal policy towards central Canadian interests. However, at present these interests do not coincide, for several reasons:

- . the last round of GATT negotiations tended to retain tariff protection for industries predominantly located in Quebec and ones comprising a significant part of its economy; Ontario received lowered tariffs on many of its manufactured goods, making this Province's industrial sector relatively more vulnerable, although it is more diversified;

- . Quebec government policy is opposed in principle to strong federal action and sees a natural ally in the West. Despite energy and inflation problems similar to Ontario's, the Quebec government seems secure in the knowledge that the Quebec federal Liberal caucus will protect Quebec's vital interests without a need for the PQ government to support federal actions.

The Atlantic provinces might be considered to have an interest in aligning themselves with Ontario's support for strong federal economic leadership. But the Maritimes are longstanding recipients of federal expenditure and equalization programs which give proportionately greater equalization payments to Quebec and the Atlantic provinces whenever Ontario is forced to raise taxes. Recently too, Alberta has made low-interest loans to the region and is cultivating closer Atlantic-western ties.

Finally, as a more general point, the Province appears to be associated uncritically with the federal government when for many provinces, strong resentment is expressed against the style of Mr. Trudeau's actions, the government's bilingual orientation, and the insensitivity to western and eastern needs. The strength of feeling perhaps explains its indiscriminate application to Ontario as well; in any event, the Province in many issues is likely to be increasingly the target of willful non-cooperation by other provinces.

In the year to come then, Ontario will not be able to rely on a natural identity with other provinces or a readiness on the part of the federal government to meet its needs. The Province will, with considerable flexibility, have to build interprovincial alliances in some areas, yet elsewhere opt for a dominant federal government. In the former case, Ontario can join with other provinces to maintain the Established Programs Financing Agreement and to limit the indiscriminate nature of the federal tendency towards unilateralism; in the latter respect, Ontario will need to convince the rest of Canada--and the federal government--of the importance of a national industrial policy. Realistically, this will mean substantial federal expenditures to provide industrial adjustment

assistance, money which largely will come from oil and gas revenues and hence be seen as a move by Ontario to once again use the federal government as a means to syphon off western economic development for its own industrial benefit.

Ontario will have to present and respond to a more integrated picture of Canadian economic development. On the one hand, it will continue to welcome and support opportunities of any province to extend, and deepen its economic base. At the same time, this should not be at the cost of the stability and competitiveness of established industry. Although industry is presently concentrated in central Canada; its adaptability should be a concern of all parts of Canada. Provided Ontario can demonstrate its acceptance of a fully-developed resource sector, it should expect greater intergovernmental cooperation towards industrial policy and interprovincial fiscal discrepancies generally.

The key to interesting the other governments in establishing this more integrated cooperative environment seems to be in energy pricing, one of the few areas where Ontario is able to make a gesture having benefits for many interests in Canada. If Ontario were prepared to meet western demands that prices go up higher and faster, this might establish a climate in which to seek western support for several of Ontario's concerns, e.g., a two-tier equalization system and a national industrial policy. With higher energy prices, western and federal revenues would increase directly, while revenue would flow indirectly to Ontario under a new second level equalization formula comprised of provincial contributions. The federal government would retain a capacity for industrial adjustment assistance, yet Ontario would work with other provinces to limit federal initiatives in areas where they are not essential.

3. Conclusion

For many years, the intergovernmental relations of a province were a mosaic formed from discrete functional interests and agreements. At any one time, certain areas would suffer from strain among governments, while others would return to a state of normalcy. It became the expectation that only the cycle of centralization/decentralization was a factor common to all areas, and even then, not simultaneously.

What is dramatically different today, and for the foreseeable future, is the much greater integration that governments impose on their many positions in intergovernmental relations. Predominantly, this is expressed as self-sufficiency, born in the western provinces of the security afforded by energy prices and counterbalanced by the federal government's pursuit of its definition of "the national interest" with or without interprovincial consensus. The effect is to narrow the scope for compromise and to link agreement in one area with concessions in others.

The synthesizing of functional issues into an overall negotiating position will increasingly come to have a bearing on individual ministerial responsibilities. Although 1980-1981 saw federal-provincial confrontation dominated by constitutional and energy issues, and thus confined largely to First Ministers or Ministers responsible for the Constitution, in the coming year difficult intergovernmental bargaining will spread generally across most government functions. An understanding of the pattern and direction of federal-provincial relations will therefore be essential to negotiating the best terms for the Province in its many relations with other governments.

II REVIEW OF FUNCTIONAL AREAS

1. JUSTICE POLICY

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ADMINISTRATION OF JUSTICE

Issue

- There is a continuing problem of delineating federal and provincial functions in the justice area where the constitution provides for joint, although not parallel responsibility, i.e., the federal government sets policy (the Criminal Code) and the provinces administer (enforcement, prosecution, and incarceration).
- Ontario contests the federal insistence on a broad definition of its policy responsibility, which the Province believes is more properly part of its responsibility for the administration of justice, e.g., the federal action to augment its power through the proposed Ports Act, prosecutorial responsibility, Prisons and Reformatories Act.
- Also, this area, like most, has current federal-provincial cost-sharing agreements; the provincial ministries are faced with the federal desire to reduce spending, leading to unilateral reductions of its share of costs, e.g., legal aid.

Recent Events

- In 1979 the First Ministers identified the Administration of Justice as a priority for disentanglement. A steering committee of federal and provincial deputy ministers identified a number of areas requiring clarification of respective responsibilities. However, the final report failed to propose solutions whether harmonization, legislative or constitutional change, and the report has not gone forward to Ministers.
- In 1980 there was no federal-provincial ministerial meeting. The Council of Provincial Attorneys General met in November. The recurring theme of the interprovincial discussions was federal legislative actions taken without adequate consultation with the provinces and lack of a practical appreciation of the impact that these measures have for the administration of justice. This resulted in further instances of federal intrusions, e.g., proposed Ports and Cannabis legislation. Another focus of concern at the November meeting was federal unilateral reductions in its contributions to cost-shared programs.
- In 1980 Attorneys General were actively engaged in constitutional discussion in the Continuing Committee of Ministers on the Constitution. Five of the items on the constitutional agenda were justice-related matters. These were:
 - transfer of jurisdiction over marriage and divorce to the provinces (family law) - nine of the eleven governments support the "best effort" draft

- entrenchment of the Supreme Court of Canada in the Constitution - the major point of difference among governments is the method by which the composition of the Court (i.e., the number of common law judges and civil law judges) reflects our dual legal system
- repeal or amendment of S. 96 of the BNA Act, the power to appoint county, district and superior court judges - tentative consensus on amendments which would permit the provinces to appoint administrative tribunals and create unified family courts at the provincial court level, although the issue was not considered by First Ministers
- amend S. 101 of the BNA Act to limit Parliament's power to create additional courts - federal-provincial consensus, although the item was not considered by First Ministers
- entrenching a charter of fundamental, legal, democratic and linguistic rights - no consensus.

Emerging Issues in 1981

- . Increased emphasis on disentanglement by the federal government is likely as a means of reducing its expenditures in the justice area. The Solicitor General of Canada recently announced his intention of consulting with provinces on means of reducing duplication and costs. The Minister referred to the dual federal-provincial role in corrections as one example where federal and provincial governments could work towards mutual cost savings.
- . The federal proposal to reform cannabis laws will be scrutinized by provinces for spillover effects on the administration of justice and public health system.
- . Bill C-61, proposed Young Offenders Legislation, was tabled in the House of Commons early in 1981. The federal government hopes for passage of the legislation to replace the Juvenile Delinquents Act in 1982. Provinces in general support the thrust of the Bill but are worried that federal fiscal restraint will mean unilateral federal redirections of its share of costs imposed by the new legislation.

CONSUMER AND COMMERCIAL AFFAIRS

Issues

- Jurisdictional overlap and ambiguity have contributed to a long history of federal-provincial competition in the consumer and commercial affairs field. However, serious efforts have been made in the past both to disentangle federal and provincial responsibilities, particularly with respect to consumer matters, and to coordinate policy development in general. During the brief tenure of the Clark government, there were signs that it planned to vacate some areas and the provinces indicated a willingness to fill the void.
- It would appear that the thrust towards disentanglement in the late 70's has lost its force. The federal government has not suggested any further retreat from selected spheres of responsibility; in fact, there are clear indications of impending federal action on competition and of the possibility that Ottawa may move into the securities area.

Recent Events

- At the October meeting of federal and provincial Ministers of Consumer and Corporate Affairs, no major policy decisions were made although the federal Minister emphasized the need for consultation and cooperation.
- The federal Minister did announce his intention to strengthen competition legislation. Provincial Ministers recognized in principle the need for more effective competition policy, but need to know about the specific contents of any forthcoming legislation. *

Emerging Issues in 1981

- Since the federal government intends to introduce amendments to the conspiracy, mergers and monopolization clauses of the Combines Investigation Act, the provinces will need to ensure that the federal initiative does not constitute inappropriate economic policy or conflict with provincial laws.

* The federal Minister has subsequently sent his provincial counterparts a series of proposals for reform of competition policy. Specific questions about the areas of the Combines Investigation Act to be amended have been posed, and provincial responses requested.

- . The federal government is considering action to give it the authority to govern the operations of securities markets on a national basis. Federal proposals in this area present Ontario with a dilemma. On the one hand, Consumer and Commercial Relations sees no need for a federal role, given the high degree of interprovincial harmonization which exists and the desirability of avoiding two-tier regulation. On the other hand, in the constitutional forum, the provincial government has been calling for strong federal economic leadership. Therefore, it should be clarified whether the call for strong federal economic leadership might encompass consideration of any type of federal involvement in securities.
- . The Supreme Court of Canada's decision involving food standards will require cooperative action between the federal and provincial governments to reinstate valid and uniform standards across the country.
- . The federal government may move in the next year or two to encourage the development of the transfer of funds (between stores and banks) by electronic transmission, with implications for provincial legislation relating to credit, near-banks, privacy, etc. A high degree of federal-provincial coordination will be crucial to the implementation of EFT, if consumer and commercial interests are to be adequately protected.

CORRECTIONS

Issue

- . Correctional services have been identified by First Ministers as an area where discussions of broad-scale disentanglement should take place. Federal unwillingness to consider a transfer of funds to accompany any transferred responsibilities have dampened disentanglement discussions with the result that harmonization of individual programs is the main focus of inter-governmental activity.

Recent Events

- . In 1979 federal-provincial discussions broke down over a federal proposal to disentangle federal and provincial responsibilities for corrections by transferring administrative control to the provinces while retaining federal control over policy decisions. This would result in the federal government not having to be accountable administratively and financially for its policy decisions.
- . As a result, 1980 marked the continuation of bilateral discussions of more specific issues where implementing exchange of services agreements such as the transfer of federal female inmates to the Vanier Institute would reduce duplication.

Emerging Issues in 1981

- . Given the federal government's current constraints, it is unlikely that it will offer spontaneously funding for services that could be transferred to the provincial government. This will result in further specific swaps or exchanges of services aimed at ending obvious duplication but leaving the First Ministers' interest in the general clarification of roles unanswered.
- . In the past, attempts by both levels of government to control costs through sharing of facilities, resources, etc. have bogged down because the federal government was unwilling to pay provincial per diem rates to house federal inmates in provincial institutions. Previous federal attempts to disentangle parole responsibility resulted in the Province accepting the additional responsibility, but without financial assistance from the federal government.

EMERGENCY PLANNING

Issue

- The federal government is developing a new federal policy on peacetime emergency planning which shifts much of the responsibility for emergency policy, planning and operations from the province to a federal-provincial forum with ultimate discretion going to the federal government.

Recent Events

- Provincial Ministers responsible for emergency planning met in Charlottetown in September 1980. They endorsed a federal proposal for a series of conferences of officials to culminate in a federal-provincial meeting of Ministers in 1981 to review and approve new policy and program initiatives for emergency planning. There has been no coherent federal policy or procedure for emergency planning. For this reason, the federal initiative has largely been supported by the provinces with the aim of clarifying and better coordinating federal involvement in emergency planning.
- There have been preliminary discussions among officials. No conclusions have been reached. Although a ministerial meeting is scheduled for June 5, 1981, the federal government took advantage of the federal-provincial meeting in February 1981 to test provincial reactions to a revised federal policy on emergency planning: i.e.,
 - the federal government is considering introducing entirely new emergency legislation to handle a variety of emergency situations other than war, such as those resulting from natural disasters and major accidents from pollution, civil disorder, economic and social disorder. The War Measures Act would become an Act of last resort.
 - the federal policy is premised on "joint" emergency planning rather than complementary policies with provincial primacy. Federal-provincial agreements would be the cornerstone of joint planning. Any revision of current financial arrangements would be conditional on a "joint" approach.

- the proposed policy provides little, if anything, in real financial terms to enhance provincial capabilities: (1) the formula for qualifying for disaster assistance would remain the same (i.e., \$1/capita, in Ontario \$8.5M) but would now be indexed to the CPI, (2) any federal services provided (e.g., National Defence) would be assigned a dollar value and deducted from the disaster assistance to which a province may be entitled. The likelihood of Ontario ever receiving assistance is almost nil. Yet, in return, the federal government has requested influence over emergency planning, and the discretion to make "exceptional" federal contributions outside the above formula and guidelines (visibility).

Emerging Issues in 1981

- . Federal-provincial roles and responsibilities in emergency planning will be addressed by Ministers, June 5, 1981. There is a legitimate role for the federal government in emergency planning. A coherent federal policy necessitates neither a grand scheme nor new legislation. Most emergencies can be handled under existing jurisdictional roles and responsibilities. Ontario would be better to press for definition of federal roles and responsibilities in grey areas rather than move to a totally new system. This should include: emergency planning for energy supplies, nuclear accidents and transportation of dangerous goods. To date, these have been handled as separate issues in separate forums.

2. RESOURCE POLICY

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AGRICULTURE

Issue

- As a joint federal and provincial jurisdiction under the Constitution, this area is marked by an absence of intergovernmental tension over who should be doing what. Instead there predominates a co-operative venture of agriculture ministries to harmonize complementary and competitive programs in the interest of providing the farming community with a maximum of financial and regulatory assistance. Many issues are annually recurring because they deal with the failure of the federal government to exercise sufficient leadership or with difficulties in a particular agricultural sector derived from inadequate financing of the area.

Recent Events

a) Concern of provinces with federal leadership

- There is concern that the mandate for agriculture is spread over too many federal agencies, leading to a lack of coordination in federal agricultural policy and the absence of an agricultural development strategy. The federal government has consistently been criticized for its insufficient policy and spending on agricultural stabilization.

b) Market development

- After several years of provincial prodding led by Ontario, the federal Department has established an Agricultural Export Corporation to enter into long term contracts with marketing boards and agro-business firms or into joint ventures to produce and market products abroad. It has been felt for some time, in the face of aggressive trading agencies of other countries, that Canada has needed to increase the volume, variety and returns from the sale of Canadian food and agricultural products by federal effort in export development.
- While the Corporation is expected to complement rather than replace existing provincial marketing efforts, and will incorporate provincial officials on an advisory committee, Ontario recognized that there could be difficulties with provincial efforts to promote a specific product. The federal government expects that provinces will use the Corporation rather than establish new provincial export marketing structures.

c) Duplication of services

- . First Ministers in October 1978 asked that duplication in agriculture be examined by the federal and provincial Ministers responsible. After a survey of their operations by Deputy Ministers of Agriculture, the Ministers accepted their report that "there was no significant duplication, but complementarity of services. Only Quebec believed that there was some duplication." As a result, this matter will be passed back to Ministers of Intergovernmental Affairs with the note that "Agriculture Canada remains ready to pursue the discussions on a bilateral basis with Quebec or any other province feeling that there is duplication."

Emerging Issues in 1981

- . The major problem in agriculture is one which faces both orders of government simultaneously, that of the high cost of credit, particularly as it affects beef and pork producers. The provinces can be expected to press the federal Minister for greater eligibility of farmers for assistance under the Farm Credit Act. The federal government's interest in pursuing constraints and greater visibility in its joint funding of provincial programs could result in proposals to change the character of both Crop Insurance and Agricultural Stabilization programs.
- . A forthcoming study by the Economic Council of Canada will examine the role of agricultural products marketing boards and it is expected that supply management, quota values and the passing on of the costs of inflation and interest rates directly to the consumer will be the subject of critical comment. This could require an inquiry or response from the Ministers of Agriculture.

COMMUNICATIONS

Issues

- . Over the last decade, communications has been a source of federal-provincial conflict. Most jurisdiction is federal, based more on a series of legal decisions than any explicit constitutional provision. The provinces seek increased authority ideally through a revised division of constitutional powers.
- . During the past year, communications issues have been actively discussed both in constitutional and non-constitutional forums without resolution of the continuing matters of dispute. Moreover, the provinces have been subject to federal intrusions on an administrative level (e.g., CRTC interference with regard to provincially-regulated telephone carriers). Primarily antagonistic federal-provincial relations prompted the provinces to set aside their differences and develop a common front (e.g., the provincial constitutional consensus) as a means of exerting maximum pressure on the federal government.

Recent events

- . Last summer's constitutional negotiations covered four policy areas: spectrum management, telecommunications carriers, broadcasting and cable distribution. There was joint agreement that jurisdiction over all cable systems and some cable services, as well as all telephone companies, within a province should be provincial; however, the narrowness of the federal government's offer of authority, plus its pursuit of exclusive jurisdiction over interprovincial carriers in return for these concessions, resulted in a stalemate. All ten provinces agreed to an amendment based on concurrency while Ottawa supported an allocation of powers based on exclusivity.
- . Outside constitutional discussions, joint intergovernmental working groups have been dealing with issues related to the industrial impacts of communications policies, competition and industry structure and cable delegation. All three groups have effectively completed their work and will report to Ministers at their next meeting in early fall.

Emerging Issues in 1981

- . The next federal-provincial Ministers meeting will study a report on delegating authority over cable to the provinces (as an alternative to a constitutional transfer of jurisdiction). The provinces have reached consensus on an approach. The industry wants to see the matter resolved. However, federal commitment to delegation is uncertain and provinces will be exerting pressure on Ottawa to follow through on the jointly agreed mandate of the group.

- . Faced with the possibility of the federal government extending exclusive jurisdiction over the regulation of telephone carriers' interprovincial rates and practices, provinces will be intensifying their efforts to develop a cooperative, interjurisdictional alternative. There is disagreement not only between federal and provincial governments, but between provinces who own/operate their telephone companies and those who do not.
- . The federal government has announced its intention of reviewing its microwave licensing policy on the intercity delivery of signals. Provinces want any changes deferred until Ministers have consulted since unilateral policy shifts may have adverse impacts on provincial telecommunications infrastructures.
- . The recent call for pay-television applications by the Canadian Radio-Television and Telecommunications Commission appears flexible enough to allow for regional as well as national systems, innovative distribution, and competition between systems. Ostensibly then, no attempts are being made by the federal government to regulate pay TV unilaterally. Such a move would be vigorously opposed by the provinces, who argue that, as a closed-circuit service, pay TV falls within their jurisdiction. Ontario will be following the public hearings closely to ensure no shift in emphasis takes place.
- . The Quebec government and Bell Canada have been meeting to develop a mechanism whereby authority over Bell Canada could be transferred to that province. Ontario will continue to monitor the negotiations carefully, since there could be significant implications for Bell's corporate activities in Ontario.
- . The future development of electronic funds transfer (see note on EFT in the Consumer and Commercial Affairs section) will also have communications policy implications.

ENERGY

Issues

- . A federal-provincial agreement on energy supply and pricing continued to elude governments in 1980. The federal government laid out the blueprint in the federal budget, October 28, for the National Energy Program (NEP). By doing so, the federal government has essentially taken the initiative in energy policy from the producing provinces. The western provinces responded with a cutback in production (Alberta) and an appeal to the courts.

Recent Events

a) The National Energy Program

- . The federal government has unilaterally dictated energy-resource policy. With or without a federal-provincial agreement, the pricing and tax regime outlined in the NEP takes effect under the federal Petroleum Administration Act. It has indicated a willingness to consult with provinces only regarding the details of implementation. There is no flexibility on the overall thrust of the policy.
- . There is provincial opposition to the NEP. The NEP pricing and tax regime (i.e., revenue sharing) is considered an encroachment on provincial ownership and jurisdiction. The Alberta government has responded by challenging the tax regime in the courts, by withholding approval of the oil sands projects, and by cutting back oil destined for eastern Canada. Similarly, Saskatchewan intends to test the natural gas tax in the courts, and in the interim, British Columbia has opted to withhold taxes. Quebec and Atlantic Canada, with their own energy ambitions, have supported the western position.
- . Ontario has taken no official position on the NEP. In both energy and constitutional forums Ontario has advocated a strong federal presence in energy policy and a strong federal role in the redistribution of benefits. The NEP offers both, and hence commands Ontario's support or at least neutrality. However, the federal approach raises some specific concerns:
 - the off-oil program spends recycled revenues in Ontario, but on federal terms: visibility, at the local level particularly in conservation; accountability, the federal government will set policy, the province will administer it; inflexibility, there is little room to tailor programs to regions (e.g. electricity incentive desired by Ontario) or to complement existing provincial programs.

- federal initiatives direct a shift of economic/ investment activity to the energy industry located in resource based regions of the country with no redirection of revenues into the manufacturing sector in Ontario (and Quebec).
- the NEP does not address revenue imbalances among the provinces; indication that the federal government may direct their share to deficit reduction, their own account spending and western economic development fund.
- . Ontario's reservations about the NEP are broadly shared: the off-oil aspects by all provinces, the revenue imbalances by Quebec and Atlantic Canada. Federal-provincial agreement on off-oil elude all provinces. With price and tax regimes unresolved, there is no incentive to conclude off-oil agreements. There has been considerable pressure on Ontario to conclude an agreement and hence break the back of provincial resistance.

b) Emergency Planning

- . Federal legislation, the Energy Supplies Emergency Act passed in 1979, was designed to allocate oil supply in the face of a sudden interruption to normal oil supply. It made no provisions to cope with a creeping shortage. Canada was not required to respond to an emergency in 1980. There was no clarification of federal and provincial roles and responsibilities in the event of an oil shortage. Ontario has attempted unsuccessfully to convince the federal government that such clarification was a prerequisite to sound planning at both levels.

c) The impact of constitutional discussions

- . The constitutional discussions attempted to reconcile provincial jurisdiction over natural resources with federal powers over trade and commerce and more generally the federal responsibility for economic development, and the redistribution and equalization of wealth. The intent was to clarify the scope of the respective jurisdictional authority. One aspect of this struggle has emerged in discussions on energy pricing, taxation and development, and revenue sharing.
- . No reconciliation emerged from the Conference of First Ministers on the Constitution September 8-12. All governments supported the provincial right, sought by Saskatchewan, to levy indirect taxes on natural resources (equivalent to royalties). Governments fell into two camps on the trade - ownership issue. The federal government, Ontario, Prince Edward Island, New Brunswick and Nova Scotia supported concurrent jurisdiction in interprovincial trade with federal paramountcy.

Saskatchewan wanted to include international trade as well. The rest argued for restricted federal trade and commerce powers over resources except in times of "compelling national interest." In a nutshell, with flexibility in other fields, support for concurrency was feasible from all governments except Alberta and Quebec.

- . The federal constitutional resolution proposes concurrency with federal paramountcy in interprovincial trade and commerce. International trade remains in federal jurisdiction. There is no erosion of provincial powers in these proposals, and although less than agreed to during the 1979 discussions, are essentially the 1980 best effort draft. The federal government indicated during the September Conference a readiness to consider a non-constitutional arrangement respecting international trade. This still stands.

Emerging Issues in 1981

- . Resolution of the pricing and taxing regime, the constitutional debate over trade-ownership and the need to clarify responsibility for an oil shortage will continue to dominate the energy picture through-1981.

a) Revenue Sharing

- . Ontario recognizes there must be a compromise between the NEP and the western position. For Ontario any compromise would have to include a resolution of fiscal imbalances between provinces and equalization. This would include some tangible redistribution of revenues into Ontario to meet regional needs e.g., participation in mega-projects, investments in non-energy sector, and some adjustment to higher energy costs for low income population and small business.

b) Visibility

- . The federal government is looking for direct access to the public through federal programs; this includes a high profile and increased influence on the delivery of services and funds to the public. This has been most clearly demonstrated in the "off-oil" program of the NEP, particularly in conservation and in urban affairs. Ontario will be forced to concede some federal visibility in this field if it is to have any influence on the ultimate federal program. Recognizing this, Ontario must seek some orderly clarification of federal-provincial roles and responsibilities in conservation, and particularly at the local level.

- . In emergency planning, Ontario should continue to press for clarification of federal-provincial roles and responsibilities consistent with jurisdictional responsibilities. This position should be consistent with the Ontario position in the broader federal-provincial discussion on peacetime emergency planning, being carried by the Ministry of the Solicitor General.

c) Constitutional fallout

- . The strong position taken by the federal government on energy policy and the constitution has hardened lines among governments. It will take time for the full implications of the revised resource provisions in the constitutional resolution to emerge. Only after these provisions are tested in intergovernmental forums, will there be a tendency to seek clarification via the courts.
- . A potential test could be federal regulation of electrical transmission: the Newfoundland-Quebec dispute and the western power grid.
- . A successful federal appeal of the Alberta Court decision on the gas tax in the NEP, expanding electricity export markets in the United States for utilities in Newfoundland, Quebec, Ontario, Manitoba and Saskatchewan, the inclusion of electricity in the definition of natural resources in the constitutional resolution, and the federal deficit all suggest Ontario should anticipate a federal export tax on electricity.

ENVIRONMENT

Issues

- . Although there is a clear need to clarify federal and provincial roles and responsibilities for environmental protection, no progress has been made. The proposed federal environmental protection strategy, which had been discussed in 1979 and which would have initiated negotiations towards more clearly defined jurisdictions, was not brought forward in 1980. The amendments to the Clean Air Act only served to complicate the wider issue.
- . With the exception of these amendments, the negotiations with the United States over a transboundary air pollution agreement have been a cooperative effort between the federal government and Ontario.

Recent Events

- . In 1979 the provinces had agreed to support the federal government's efforts to negotiate a transboundary air pollution agreement with the United States. Through the Canadian Council of Resource and Environment Ministers, a federal-provincial committee was established to facilitate consultation and joint strategy development. This committee continued to be active in 1980.
- . In August 1980, Canada and the United States signed a memorandum of intent to curb acid rain and resolve international air pollution problems. The memorandum of intent established working groups to prepare for the negotiation of an agreement on air pollution by 1982. The provinces are represented on the working groups.
- . In December, with only minimal consultation and despite objections from Ontario and other provinces, the federal government passed amendments to the Clean Air Act. The purpose given for the amendments was that they would provide the reciprocity necessary to allow desirable U.S. legislation to come into effect. However, while supporting the objective of controlling transboundary air pollution, the provinces questioned the necessity, the timing, and the mechanism used in the amendments. Despite requirements for consultation with the concerned provinces, the amendments basically give the federal Minister discretionary authority to regulate emission sources which in his or her opinion may pose a hazard to another country. This represents a unilateral extension of federal authority to regulate the environment.
- . Recently, Ontario has intervened directly with the United States Environmental Protection Agency and in the United States Court of Appeals in an effort to obtain a reduction in emissions from American power plants that cause acid rain affecting Ontario.

Emerging Issues in 1981

- . The future of the negotiations on a transboundary air pollution agreement with the United States will depend on the policies of the new Reagan administration. Ontario will continue to press, both politically and legally, for the use of effective pollution controls by U.S. utilities and other industries.
- . It is expected that the federal government will produce a revised version of the environmental protection strategy that was discussed with the provinces in 1979, and that the federal government will again tour the provinces seeking comments. The environmental protection strategy was developed to clarify roles and responsibilities of the federal and provincial governments.
- . One area that is likely to receive attention in 1981 is the regulation of toxic substances and hazardous waste management. Both the federal and provincial governments are active in this area, and it will be necessary to guard against duplication and entanglement.

FORESTRY

Issues

- Forestry is an area that has remained relatively unentangled. Provinces are responsible for forest management. The federal government provides some funding, carries out research and provides statistical services.
- While careful to retain their rights as far as forest management is concerned, provinces have been pressing the federal government for increased funding and to take a higher profile. The rationale for increased funding is the benefits received by the federal government from forestry. The purpose of a higher federal profile is to raise the profile of forestry in general and to facilitate the coordination of policies of other federal departments that affect forestry.

Recent Events

- At their meeting in January 1980, the federal and provincial Forestry Ministers adopted the eleven general principles derived from the report "Forestry Imperatives for Canada" that had been prepared for the Canadian Council of Resource and Environment Ministers (CCREM). Rather than establishing a national forest policy, it was intended that the principles be interpreted and applied by each government to its own jurisdiction.
- To follow up the forestry report, the Ministers agreed to initiate a joint study of possible funding mechanisms. At the CCREM meeting in May 1980, Forestry Ministers agreed to terms of reference for a study of funding mechanisms by which federal funds might be directed to forest management. The federal Minister said that at the same time the federal government would initiate a study that would provide a rationale for federal action. The federal study is investigating the impediments to provincial and private funding and what federal strategies could lessen these constraints.
- Also in January 1980, the provincial Ministers generally supported the role for the federal government proposed by the federal Minister. The role would involve primarily coordination of federal policies, research and development, and statistical support. To implement the proposed role the federal Minister appointed an assistant deputy minister for forestry and established an interministerial committee to coordinate the forestry activities of the federal government.

Emerging Issues in 1981

- Both the CCREM and the federal studies of funding mechanisms will be completed and will be considered at the CCREM meeting to be held in the fall. There will be pressure by the provinces on the federal government for increased funding for forest management. So far, there have been no indications either that the federal government will allocate significantly greater funds to forest management or of what conditions might be imposed on the provinces as a requirement for increased funding.

HOUSING AND URBAN AFFAIRS

Issue

- . In the late 70s, this was one of the first areas to show signs of a federal willingness to disentangle and clarify federal and provincial responsibilities: the termination of the Ministry of State for Urban Affairs, the signing of a global agreement with the Province reducing CMHC's role as a direct lender and pursuing disentanglement on housing programs, and the signing of the Community Services Contribution Program (CSCP) agreement. Recently, there have been two major setbacks through unilateral federal action: the cancellation of CSCP and the reversal of a process to reduce CMHC as a direct lender in public housing projects.

Recent Events

- . The Community Services Contribution Program (CSCP) was a significant federal-provincial block funding program signed in 1979 as a step under a Global Agreement to disentangle, while retaining federal and provincial involvement in the housing and urban field. The CSCP consolidated previous shared cost programs into a single community services grant, largely administered by the Province.
- . On November 12, the federal government confirmed its termination of CSCP at the expiry of its two year term (December 1980). This development had been hinted at since the return of the federal Liberal government which claimed that "CSCP as well as other federal programs must be reviewed in the light of the need for restraint in federal expenditures," although the federal-provincial agreement specifically stated that "Canada and the Province agree that prior to December 31, 1980, they will endeavour to replace this agreement with a new agreement that provides long term certainty to the CSCP..."
- . The Minister's explanation for the termination hints at a federal redirection of its funding of provincial activities into direct payments to its clientele: "...the federal view of cost-sharing arrangements has been reconsidered, within the broader context of the constitutional debate. It is important that all Canadians understand the benefits being provided by the federal government at this particularly crucial time."
- . It has since transpired that the federal government, despite constraints, has found money to introduce new high profile community energy conservation initiatives, suggesting that CSCP's termination might have resulted largely because federal funds were reaching clientele only indirectly, i.e., through the Province or municipality.

- . A related issue, reflecting this Liberal decision not to fund the market indirectly, has been the federal reversal of an earlier commitment made by Mr. Clark's government to move CMHC out of a direct lending role. As a result, Ontario assumed administrative responsibility for the (federal) Municipal Non-Profit Program and it was understood by all parties that transfer of program delivery responsibilities for the Private Non-Profit and the Co-operative Housing Programs would be subsequently negotiated. Ontario's interest in these programs is to increase the number of rent-geared-to-income units.
- . The federal government has now decided not to proceed with the transfer of responsibility for the Private Non-Profit Program to the Province.

Emerging Issues in 1981

- . The Province will undertake to establish with the federal government joint planning for their programs for assisted housing, given the failure in transferring of the Non-profit Program to the Province and in light of Cabinet's authorization of housing grants to supplement the federal program to encourage production of rent-geared-to-income units.
- . New federal energy conservation initiatives aimed at municipal or community awareness/education/counselling (in addition to homeowner programs) could complicate the provinces' municipal programs and duplicate their present efforts.
- . At a recent private realty conference, the federal Minister mooted the possibility of a federal shelter allowance, as a redeployment of CSCP funds, designating this initiative as constituting "an integral part of the broader income security and support system effected by the federal and provincial governments of the country." While the Province might support this in principle, it may conflict with existing provincial housing schemes. The Province may be prepared to consider a shelter allowance, but would prefer to "complement" a federal initiative. No independent provincial initiative is likely.

INDUSTRIAL POLICY

Issue

- Perhaps the single most important issue in this area in 1980 was the continued lack of initiatives by the federal government in industrial and trade policy matters.

Recent Events

- Manufacturing in Canada has had to adjust to:
 - reduced energy consumption;
 - a new MTN world order;
 - pressure to compete by incorporating new technology;
 - coping with small, widespread markets, foreign ownership and manpower shortages.
- Given the concentration of manufacturing in Ontario, and the absence of a federal adjustment strategy, there is increased pressure on the Ontario government to fill the gap.
- To pursue a Canadian industrial policy two priorities dominate: import replacement and industrial development. Both might be aided by developing a comprehensive procurement policy. Among other things, this policy would require intergovernmental agreement.
- A federal-provincial working group was established in 1979 to address problems of market fragmentation and establish potential for cooperation among governments in sharing information on Canadian suppliers and opportunities, and establishing standards and policy on procurement. Results to date have not been encouraging, and the approaches suggested by the federal government on means to use procurement for industrial and regional development have not been adopted.
- Ontario's approach, as outlined in a recent document, Interprovincial Economic Cooperation, advocates a step by step approach rather than attempting to develop a comprehensive approach. The Ontario suggestion is to take one item - health products for instance, and establish a common purchasing arrangement for each area. A federal-provincial initiative in the health products area has been pursued.

- Because the federal government has been consistently unable, in its spending on Research and Development, to reach a goal of 1.5% of GNP, provinces including Ontario have established provincially-run research organizations. The issue, as a result, is more one of coordination. In recent years, federal support for R & D has been largely through university-based research. Ontario would like greater emphasis put on establishing links between this research and on industrial R & D and industrial innovation.

Emerging Issues in 1981

- Ontario's 1981 industrial policy priorities of import replacement, energy price adjustment, and industrial benefits from resource development will require federal-provincial cooperation and have the potential of becoming intergovernmental issues.

a) Canadian Common Market

- Ontario has proposed the creation of a Canadian Domestic Market Development Agency which would, among other things, work directly with governments and the private sector to foster interprovincial trade and economic cooperation.
- One of the issues identified in this proposal is the maximization and utilization of the Canadian potential for resource-based industrial development and in particular the strategy for interprovincial distribution of mega projects resulting from such development.
- This proposal has not met with universal provincial approval and Western provinces reaction will likely depend upon the outcome of energy negotiations.

b) B.I.L.D.

- One of Ontario's major industrial strategy weapons for manufacturing adjustment was the EDF (Employment Development Fund). This has now been replaced with the Board of Industrial Leadership and Development (BILD) which will put more emphasis on the development of an infrastructure to support economic development and to encourage industrial expansion and diversification in areas of critical importance to Ontario. One of the Board's mandates is to provide a focus for economic liaison with the federal government to ensure maximum federal response and participation in the Ontario development initiatives. Since a number of major Ontario ministries are represented on BILD, this could become the focus of federal-provincial interaction in a number of crucial industrial development areas.

c) F.I.R.A.

- . The federal government has indicated that a review will be conducted of FIRA in 1981 with a possible view to amending the Act. Ontario has argued for the removal of unnecessary impediments to the flow of foreign investment to Ontario, while maintaining existing ones through a streamlined Act and regulations. Also, Ontario would like to have an upgraded role in the FIRA review process.

d) Trade

- . The federal government has proposed the establishment of a federal-provincial consultative group on trade issues. This body would act in a consultative capacity and would not give provinces a direct role in ongoing trade negotiations. This might provide a focus for discussion on GATT and other issues in international and domestic trade. Such a mechanism to promote federal-provincial and interprovincial consultation on emerging issues such as the "canadianization" of the oil industry, new US export initiatives, the US trade agreements act, energy pricing policies, and US restrictions of technology transfers is particularly important to Ontario which would be affected by these issues.

NATIVES

Issues

- Ontario's attempt to disentangle federal-provincial responsibility for the provision of services to status Indians in an Ontario tripartite forum has failed because there was no agreement on principles to guide the negotiations. Moreover, since the imposition of the moratorium on the extension of services to status Indians, the Province has not yet defined a reasonable and practical balance of responsibility with the result that the moratorium is coming under increasing pressure to make exceptions for specific native needs.

Recent Events

- In 1977 the Ontario Cabinet placed a moratorium on the extension of services to status Indians on or off reserve. The moratorium was seen as an interim strategy to require a federal-provincial clarification of their respective responsibilities for services to Indians.
- Ontario instituted tripartite negotiations with the federal government and status Indians to discuss a clarification of responsibilities.
- No significant progress has been made on tripartite discussions because bilateral arrangements will have to await the resolution of federal and provincial jurisdiction on a national basis.
- This and other potential matters for constitutional settlement were not addressed during the last round of constitutional discussions although First Ministers have placed the issue of "Canada's native peoples and the constitution" on the second round of discussions.

Emerging Issues in 1981

- The proposed entrenchment of aboriginal rights in the constitution, together with the federal Department of Indian Affairs and Northern Development policy initiatives promoting band self-government have implications for land entitlements and the delivery of services (social, health, policing) on reserves. In order to develop a comprehensive provincial response to the federal policy initiatives, the Province will need to assess the legal, social, political and economic consequences of the proposals.

- . Interprovincial Ministers with responsibility for native affairs will seek a meeting with the federal Minister of Indian Affairs and Northern Development:
 - to discuss the implications for the provinces of band self-government on reserves;
 - to head off further unilateral federal withdrawal of services to status Indians on and off reserve, e.g., health and social services.
- . Such a meeting would be more productive if the provinces and the federal government could first agree to a set of principles from which the issue of delivery can be negotiated.

REGIONAL DEVELOPMENT

Issues

- . DREE activities in Ontario are continuing to broaden their base of application, from ARDA programs and regional GDA agreements for eastern and northern Ontario to a special ARDA program for natives, support for single industry resource communities, and major support for forest management, and pulp and paper industry modernization.
- . Ontario's recent announcement of BILD initiatives raises the issue of whether DREE planning priorities can complement BILD actions in the regions and industrial sectors to which DREE is traditionally applicable.

Recent Events

- . A major development in the application of DREE funds in Ontario was achieved in 1979 with the signing of a \$150 million pulp and paper modernization scheme, of which the federal government will share 25%. This is an important departure from strictly regional assistance to the support of a major industrial sector.
- . Under the umbrella of the General Development Agreement, Ontario has signed ten subsidiary agreements since 1974 for a total expenditure of \$395 million. A further agreement, the Northern Rural Development Agreement, for \$17 million was signed in March 1981.
- . In November 1980, Ontario agreed to negotiate a special ARDA agreement for services to native persons.

Emerging Issues in 1981

- . In 1981 the Province will seek to increase DREE to \$50 million per year. Because of the new BILD initiatives, the Province is interested in a continued expansion of DREE involvement to non-traditional areas and sectors.

TRANSPORTATION

Issues

- . The federal government is interested in divesting itself of joint responsibilities where it can see substantial savings rather than in pursuing disentanglement. As a result of the reversal of certain commitments made by the previous federal government and hints of future federal cut-backs, the Province has become more active in traditional federal jurisdictions, as witnessed by the Ontario Task Force on Provincial Rail Policy, and the Great Lakes/Seaway Task Force. Further, many BILD initiatives are directed at areas where the federal government has refused additional funding.

Recent Events

a) Transportation of Dangerous Goods

- . The Mississauga train derailment precipitated federal Transportation of Dangerous Goods legislation which was enacted in November 1980. The legislation requires an agreement between the federal government and the provinces within a year, for the implementation and administration of the Act. Negotiations are now underway.
- . Amongst the provinces, there is growing sympathy for Ontario's position that the Province will only enforce the on-highway provisions for both intra and interprovincial movement. Responsibility for other modes is to rest with the federal government.
- . Ontario is planning to reintroduce its own Dangerous Goods legislation to administer the on-highway requirements under the federal Act. The Province is prepared to adopt the federal regulations as an interim measure should they precede the passage of provincial legislation.

b) Air

Regional air carriers and Nordair

- . The federal government has been unable to arrange a sale of Nordair which meets both Quebec and Ontario conditions. The sale has therefore been postponed until a new Regional Air Carrier Policy is developed. Ontario seeks an Ontario carrier serving Ontario but it would accept the sale of Nordair to a consortium, provided there is equal control between Quebec and Ontario interests.

STOL

- Transport Canada, the Province and, now, Toronto City Council have given support to the operation of STOL services in the Toronto-Ottawa-Montreal triangle. However, the Province rejects that it is responsible for access improvements at the Island Airport. Toronto City Council has asked for guarantees that Toronto Island not become a jet STOL airport. The issue now rests with Transport Canada and the CTC.

c) Rail

Urban Transportation Assistance Program

- As a result of financial constraints, the federal government is in the process of reviewing its role in urban transportation. As an interim measure, it has extended for one year UTAP's existence without, however, providing for additional funds. Since Ontario has made full use of federal funding available to the Province, this situation creates a gap of one year without federal funds for urban transportation projects. The immediate implication is that the Union Station improvements and the Bathurst Street Corridor projects which have been approved in principle by the federal Minister of Transport in July 1980 may be abandoned or further delayed, unless some alternative federal funding source becomes available.

d) Highways

Canadian Agreement on Vehicle Registration

- To reduce licence fee payments and delays in truck movement because of a lack of necessary licence plates, a Canada-wide agreement on mileage prorated reciprocity for the licencing of trucks was signed in October 1980. This agreement provides full and free reciprocity for small trucks, trucks carrying household goods, charter buses, and farm-plated vehicles carrying a farmer's own goods. Under the agreement, a trucker will be able to buy a licence in his own province based on fees for the mileage travelled in other provinces. Implementation of the CAVR will begin first in six provinces with Quebec, Nova Scotia and Newfoundland beginning implementation in 1982. Prince Edward Island, the Yukon and the Northwest Territories did not sign the agreement.

Emerging Issues in 1981

a) Rail

Ontario Task Force on Provincial Rail Policy

- The Ontario Task Force on Provincial Rail Policy is expected to report in the spring of 1981. Its interim report identified freight rates, rail-line abandonment, energy conservation and the future of GO Transit as issues of concern. Although railway issues are generally a federal jurisdiction, to quote the Task Force, "it is obvious that the provincial government has a role to play in resolving them." *

Rail upgrading

- Ontario has continually encouraged the federal government to upgrade rail service in the Windsor-Quebec City Corridor. The recent BILD announcements committed Ontario to work with the federal government to do so.

Railway Costing Arrangements with CNR

- Ontario would like to be treated as a preferred customer by CNR for all railway costing arrangements. A case in point is GO transit. The Province has indicated its intention to electrify the GO rail system and to approach the federal government for financial assistance. Although the Province intends to extend the commuter train services in the greater Toronto area, GO Transit is not able to negotiate with CNR for the extension of GO train service at charges similar to those enjoyed by VIA Rail.

Freight rates

- The Task Force on Provincial Rail Policy believes that excessive freight rates are being charged to captive shippers, sometimes to the detriment of Ontario's economic objectives. The Task Force has called upon the Canadian Transport Commission to resolve the issue but where this involves the Crow's Nest freight rates, the federal government has shown reluctance to act without unanimous western-user support.

* The Task Force on Provincial Rail Policy reported on April 28, 1981.

b) Marine

Ontario Great Lakes/Seaway Task Force

- . The Ontario Great Lakes/Seaway Task Force is expected to report in the spring of 1981. It has been examining the role of federal, provincial, and municipal levels of government in harbours policy, among other matters. *
- . A BILD initiative to establish an Ontario Harbour and Small Ports Commission will require discussion with and cooperation from the federal government in planning port development at Douglas Point. At present a feasibility study is being carried out by Public Works Canada concerning the development of a deep water harbour at Bruce.

Dry Dock facilities on the Great Lakes

- . BILD had indicated that there will be an expansion of Ontario's three major shipyards at Collingwood, Port Weller, and Thunder Bay. Financial participation by the federal government will be requested by the Province.

Port legislation

- . New federal ports legislation is expected within the year; consultation is underway with provinces concerning possible amendments. In recent years, attempts by the federal government to reorganize its port policy raised concerns for Ontario relating to federal intrusion into regulation of land-use, policing of port facilities and municipal involvement.

Airport Management

- . The report of the Federal Task Force on Airport Management is being completely reexamined as a result of provincial and municipal concerns. The first report had recommended that local authorities be established to manage airports.

* The Great Lakes/Seaway Task Force report was released on May 25, 1981.

URANIUM POLICY

Issues

- Because of Parliament's 1946 declaration bringing radioactive substances and nuclear energy under federal jurisdiction, many situations have arisen over the years in which there has been confusion as to which level of government has responsibility for aspects of this area. Some progress was made in 1980 towards clarifying federal and provincial roles, particularly for conventional occupational health and safety, but much remains to be done.

Recent Events

- In previous years, provincial Ministers of Mines have requested that jurisdiction over uranium mining be returned to the provinces. During the constitutional discussions in 1980, the issues of limiting the federal declaratory power and reviewing its past uses were raised, but it was decided to postpone consideration until the nature of a reformed Senate has been finalized. One of the potential duties of a reformed Senate might be to vote on proposed uses of the declaratory power. No other discussions on jurisdiction took place during the year.
- Without prejudice to any future federal-provincial agreement on regulation of uranium mining, Ontario ministries have sought interim agreements with the federal government to clarify their current operating relationships in the areas of occupational health and safety and of environmental protection.
 - The federal and Ontario Ministries of Labour reached agreement on the regulation of conventional occupational health and safety. Labour Canada incorporated by reference Ontario's legislation; administration was delegated to Ontario inspectors; and Labour Canada will reimburse Ontario for its costs in providing inspections.
 - A similar agreement has not been reached by Ontario's Ministry of the Environment with either Environment Canada or the AECB.
 - The Select Committee on Ontario Hydro Affairs has recently recommended that the AECB rather than Labour Canada incorporate Ontario's occupational health and safety legislation, and that the AECB incorporate Ontario requirements under applicable environmental statutes and make compliance a license condition.

- . The federal and Ontario governments continued to cooperate under the Canada-Ontario agreement covering the first phase of a nuclear fuel waste management program. With regard to future phases, the Select Committee on Hydro Affairs recommended that a nuclear fuel waste management agency be established under the joint ownership of the federal and Ontario governments. The Ontario Minister of Energy said that he would give the recommendation serious consideration, but at the same time he reiterated the federal government's prime responsibility for the long-term management of nuclear fuel waste.
- . A federal-provincial steering committee was appointed to oversee the planning and development of a program for uranium mine tailings management. The federal government has proposed that a federal-provincial study be conducted on the jurisdictional implications of establishing an agency to be responsible for the long term management of low level radioactive waste. So far, no action has been taken on this proposal.

Emerging Issues in 1981

- . On several aspects of this area, there is a need to clarify federal and provincial responsibilities and to reach agreements with the federal government that would facilitate effective implementation of each jurisdiction's responsibilities.
 - Further effort is required to negotiate an agreement between the AECB and the Ontario Ministry of Environment to incorporate Ontario's environmental regulations in AECB regulations. In addition the federal government will have to move to give the AECB the necessary powers to impose penalties less drastic than license removal.
 - The federal government may be pressing Ontario to make a greater financial contribution to the current phase of nuclear fuel waste management and to take a more active financial and management role in future phases. The primary federal jurisdiction and the limits to Ontario's participation will have to remain clear.
 - Clarification of federal and provincial responsibilities for uranium mine tailings is essential. With respect to low level radioactive waste in general, clarification is also required because the problem arises from several sources and is a matter of much public concern.

3. SOCIAL POLICY

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CULTURE AND RECREATION

Issue

- The cultural area is one of joint federal-provincial responsibility but increasingly limited financing has resulted in pressure on governments to "disentangle" and reduce funding duplication. This, in turn, has resulted in jurisdictional disputes between provincial and federal governments about respective roles in the cultural area.
- As provinces have established more and increasingly sophisticated programs and delivery systems in both recreation and sports, the need for federal-provincial coordination and delineation of respective responsibilities has become more apparent. The federal government accepts provincial primacy in fitness and recreation, but sports has proved a more difficult area in which to establish jurisdictional lines.

Recent Events

a) Federal-provincial roles in culture/Federal Cultural Policy Review

- A number of abortive efforts to establish a framework for federal and provincial participation in the cultural field has contributed to the continued state of tension about roles and funding policies of the provincial and federal governments. Provinces reaffirm their primacy in the cultural field and believe that the twin objectives of "complementarity and cooperation" can only be met through federal agreement to genuine and effective prior consultation with provinces on all initiatives affecting provincial programs and priorities.
- The federal Minister rejects provincial claims to primacy and asserts a continuing federal role, the focus of which is determining national goals and developing sound and rational funding policies.
- A Federal Culture Policy Review Committee has been established to examine current federal policies and programs and to recommend future course of action. Although the focus of the Committee's inquiry will be to examine and make recommendations concerning federal programs and policies, provinces have indicated their interest in contributing ideas to the Committee and using it to explore the wider question of federal and provincial roles in culture.

b) Lotteries

- Although a federal-provincial agreement on lotteries was signed in the fall of 1979 transferring jurisdiction to provinces with a sharing of revenues with the federal government, the new Liberal Minister of State for Sport, Mr. Regan, indicated federal dissatisfaction not only with the terms of the agreement but also with its intent (that the federal government has no jurisdictional right to run lotteries).
- In June 1980, Mr. Regan indicated that the annual provincial contribution to the federal government provided for by the lottery agreement was insufficient to meet commitments in the arts and sports. (That provincial contribution is set at \$24 million.) While there still appears to be federal discontent about the amount of the provincial contribution, the funding issue has had some discussion in the federal-provincial committee of Deputies responsible for culture and historical resources. Agreement has been reached that there will be joint federal-provincial exploration of proposals and criteria for both the unclaimed prize money and annual revenues, but this process has not yet been concluded.
- There is still potential for federal-provincial conflict over the apparent federal isolation of lottery revenue from its departmental budget. A number of provinces view lottery funds as only part of total funds available so that federal sports and arts programs should not be tied to the size of lottery revenues alone.

c) International cultural exchanges

- Provinces have begun to lobby the federal government for a greater role in determining the content and conditions of international cultural exchanges (exported as well as imported). After some initial reluctance, the federal official visited all provinces to solicit provincial input into determining Canadian international cultural exchange programs.

d) National Arts Centre

- The federal government gives special financial treatment to the National Arts Centre, which is heavily subsidized in its operations, to a much greater degree than other Canadian centres. Provinces argue that the NAC should compete for federal, provincial and municipal funds on the same terms as other bodies and that established performing arts companies and artists from across the country should be featured at the NAC, rather than creating "national" companies in Ottawa.

e) Indemnification

- Government guarantees are needed in the form of indemnification to reduce the high insurance costs for public galleries and museums when they mount international art exhibitions. Other countries have successfully introduced such programs with minimal costs.
- From the provincial point of view, a federal plan would simplify matters by eliminating the need for provinces to develop their own legislation. The federal government is currently examining a provincial request to consider legislation to provide indemnification for major touring exhibitions.

f) Sports and recreation

- At the insistence of provinces, a federal policy paper on development of a national recreation policy was shelved. The policy did not meet specific provincial concerns. The federal government has, instead, reorganized its Fitness and Recreation Branch and will concentrate on demonstration and research projects.
- The federal government announced that it will no longer fund recreation programs for Métis and non-status Indians.
- In the sports area, the federal government announced that it was bringing out a policy paper dealing with development of excellence in all sports at the national and international levels. The federal government has refused to guarantee prior consultation with the provinces before implementing its policy.

Emerging Issues in 1981

- Lotteries and the criteria for funding for the provincial revenue given to the federal government will remain issues.
- The federal cultural review which is in the hearings stage will spark debate on federal-provincial roles and funding priorities.
- In sports, the question of responsibility for developing and training athletes will continue to be a problem. There is a difference in opinion as to whether training should be concentrated in developing excellence at a national or international competitive level, or whether a broader approach should be taken.

EDUCATION

Issues

- There is disagreement over the five-year experience with deconditionalized federal contributions to post-secondary education (through the Established Programs Financing scheme). Because of perceived provincial under-performance, federal constraints, and a desire for greater federal visibility, there are signs of pending federal intervention or restrictions in post-secondary education contributions. There is further federal-provincial disagreement over grants for minority language education and provincial education representation internationally.

Recent events

a) EPF

- The federal government is dissatisfied with the operation of the Established Programs Financing Act (EPF) of 1977 as it relates to post-secondary education funding because federal contributions have risen dramatically each year, while provincial funding to universities has dropped. The provinces allege that EPF has given both levels of government the ends they sought in it, whether it be restraints on spending or flexibility in funding. The federal government complains that funding intended for post-secondary education is diverted to other ends and that its significant contribution is not publicly acknowledged; it is rumoured that the federal government intends to cut drastically its contributions in renegotiated EPF arrangements.
- The Council of Ministers of Education, Canada in January 1981 decided to follow the lead of provincial finance ministers in EPF negotiations. Universities and faculty associations have begun information programs and lobbying in an attempt to avoid federal cuts in post-secondary funding, and some are arguing for greater federal involvement in this area.

b) CMEC - Federal government relations

- Relations between the federal government (Secretary of State) and the provinces (Council of Ministers of Education, Canada) have been strained over threatened federal reductions in funding for the Bilingualism in Education Agreement and over Canadian representation at international conferences on education.
- In January 1981, the Secretary of State announced that formula funding for the Bilingualism in Education Program will remain at the 1979-1980 level (\$140 million) and that non-formula funding would be increased \$2.6 million to \$33 million.

- . In a 30 March 1981 letter to CMEC members, the Secretary of State made an explicit statement of the federal government's aims in negotiating renewed shared-cost programs. It seeks "visibility": the public must be fully aware of the nature, purpose, and extent of federal support to provinces and must receive adequate recognition for its support; "accountability": the federal government must be able to prove to Parliament that contributions to provinces are demonstrably needed and justified and are used for the intended purposes; "additional costs": the federal government will contribute funding to cover costs over and above "normal" costs incurred by provinces for specific programs and will be flexible about contributing to the "development" and "maintenance" of existing programs.
- . The CMEC recently met with the External Affairs Minister about international representation; there was agreement to establish a joint committee to develop strategies for the harmonization of working arrangements between the CMEC and the federal government on education-related international matters.
- . The CMEC is attempting to achieve nation-wide interprovincial cooperation in such areas as educational TV, resource materials, and joint curriculum development, but inter-provincial differences of scale and orientation make it more difficult to achieve nation-wide interprovincial agreements than bilateral agreements between similar provinces on specific issues.

Emerging Issues in 1981

- . The renegotiation of the Established Programs Financing Act and its effect on the funding of post-secondary education will be the key issue. The involvement of universities in the realization of national research and development objectives and manpower policies will receive close attention.
- . A CMEC ministerial committee is currently formulating guidelines for officials who in the fall will begin negotiating a new five-year agreement with the federal government on the Bilingualism in Education Program.
- . The CMEC is involved with provincial ministers of communications in attempting to establish a national educational TV network controlled entirely by the provinces. The success of this venture is dependent on continued interprovincial cooperation and upon the legitimacy of provincial jurisdictional claims in the communications field.

HEALTH

Issues

- The Established Programs Financing (EPF) Act of 1977 had resulted in disentanglement in the area of health care delivery. With the only condition that they continue to follow certain basic principles, provinces receive tax points and cash payments enabling them to develop and run their health care systems according to their own priorities.
- The central issues of 1980 were the emerging public criticisms of the way the provinces were running their health care systems and, correspondingly, the lack of control exerted by the federal government.

Recent Events

a) Hall Commission

- Following accusations that the health care system was deteriorating and that the provinces were misusing funds which they had received for health care under the Established Programs Financing (EPF) Act, the federal government appointed Justice Emmett Hall to review Canada's health care system.
- The Hall report established that the provinces had not been diverting federal funds away from health care and that they had been acting according to the objective set by the federal government as a basis for EPF, i.e., restraint of the growth of health expenditures.
- However the report felt that the interrelated problems of extra-billing and payments to physicians had the potential to result in deterioration of the health care system. It recommended that:
 - extra-billing be banned;
 - binding arbitration be used when negotiations on fees fail.
- At a federal and provincial Ministers meeting in September, the federal Minister indicated that she accepted Justice Hall's conclusions and was considering amending the Medicare legislation to ban extra-billing and ensure adequate compensation to physicians. Nearly all provinces opposed binding arbitration and opposed any federal action to ban extra-billing. The federal Minister agreed not to act prior to another meeting with the provinces.

b) Interprovincial secretariat

- . In part as a result of federal-provincial antagonism over the use of EPF funds, the provincial Ministers considered the establishment of a secretariat to improve coordination between intergovernmental meetings and to provide support to the conference. After study, it was agreed not to establish a new body, but rather to initiate new cooperative procedures to facilitate the work of the conference.

c) Blood fractionation

- . For several years, discussions have taken place on the facilities required for self-sufficiency in Canada for blood fractionation. The dispute concerned whether to expand the existing facility in Ontario or to develop new facilities in Quebec and in Manitoba. Alternatively, the Red Cross, thought to be supported by the federal government, wanted to build its own facility. Although the least expensive solution was to expand the Ontario facility, nearly all other provinces objected to that solution. Quebec wanted a plant in Quebec and the western provinces wanted a plant in the West.
- . At their meeting in December, the provincial Ministers of Health reached agreement to endorse the three plants which would be located in Ontario, Quebec and Manitoba and to reject the Red Cross proposal.

Emerging Issues in 1981

- . The key issue will be the renegotiation of the Established Programs Financing Act and the effect that will have on federal funding of health care. Although the federal government has expressed its desire to reduce transfer payments, the federal Minister of Health and Welfare has said that funds for health care will not be cut.
- . Related to the fiscal negotiations and following from the Hall report is the question of whether the federal government will attempt to impose additional conditions on the provinces or will define the existing principles more stringently in order for them to continue to receive federal funding - in effect reintroducing a conditional grant (but not shared-cost) scheme.

IMMIGRATION

Issues

- . Although immigration is constitutionally a joint federal-provincial responsibility, Ontario policy leaves all aspects of this field, except settlement and certain selective recruitment (e.g., entrepreneurs), to the federal government.
- . The federal government would like to involve Ontario more directly in other aspects of immigration policy such as the determination of levels.
- . Funding and provision of settlement services require greater clarification of respective roles and the problem has been aggravated by the dimension and the character of the recent Indochinese refugee program.

Recent Events

a) Immigration

Levels

- . Ontario until now has declined any formal participation in the annual federal exercise for setting immigration target levels. The federal Department of Employment and Immigration has indicated that it would like Ontario to become more formally involved by signing an agreement for joint consultation on target levels similar to those signed with some other provinces. There has always been informal consultation between Ontario and the federal Department on matters within provincial jurisdiction affected by federal immigration policy and programs.
- . Determination of annual immigration target levels is of particular significance to Ontario because over 50% of all immigrants come to this province, either directly or through secondary migration.
- . Employment and Immigration has indicated that it would like to move to "medium-term" (three-year) planning of immigration levels because the yearly exercise for identification of levels does not provide adequate planning time. The federal government emphasizes the need for closer links between immigration levels and economic and labour market requirements.

Settlement Services

- The responsibility for immigrant settlement and adaptation is shared between the federal government and the provinces, but there has never been a clarification as to what the division of this responsibility is. The problem is further compounded since two federal departments share responsibility for this area. In Ontario, Culture and Recreation handles the development, funding and review of settlement programs.
- A federal government review of its Immigrant Settlement and Adaptation Program (ISAP) has identified the following issues:
 - potential or real funding duplication (as between Secretary of State, EIC and MCR);
 - gaps in funding; and
 - confusion among voluntary organizations as to appropriate funding sources.
- Provinces are being involved in the development of a revised Immigrant Settlement and Adaptation Program because of their settlement responsibilities, providing Ontario with an opportunity to rationalize its own funding and program policies in the settlement area.

b) Refugees

Sponsorship

- The federal government's sponsorship system which allows groups of individuals and organizations to sponsor refugees and provide services beyond those provided by the federal and provincial governments poses jurisdictional problems in the event of sponsorship breakdown. Although the provinces are not signatory to agreements, all provincial services and settlement programs are affected since refugees are potential users, particularly in cases of sponsorship breakdowns. Sponsorship cannot be enforced by the federal government and increasingly, refugees are moving into urban areas, where community support is more likely. The problem is exacerbated by a federal-provincial difference about when refugees should become eligible for provincial services.

Joint Assistance Program

- . In the federal government's announced national refugee plan for 1980-1981, it was stated that increasing emphasis would be put on the acceptance of "difficult" cases under a new Joint Assistance Program (JAP). This would involve collaboration between the federal and provincial governments and private groups in providing the special services and programs required by this category.
- . Provincial governments are being involved because the so-called "difficult" cases involve the mentally and physically handicapped as well as those who, because of lack of education, would require special education and upgrading to allow them access to employment possibilities.
- . Ontario has been seeking clarification as to what is meant by "difficult" and "handicapped" and has not yet signed any agreement with the federal government.

Emerging Issues in 1981

- . Federal decisions to liberalize immigration will increasingly result in more demand on provincial services at a time of increasing pressure to exercise restraint. Accordingly, the Province will have to consider whether to review its present policy and whether to enter into formal immigration planning with the federal government.
- . Clarification with the federal government of refugee settlement/adaptation responsibilities and setting of a policy respecting handicapped and disabled refugees will be required in 1981.

LABOUR AND MANPOWER

Issue

- . With the change in government, there has been a change in approach concerning federal manpower programs. While the previous Minister had pursued tax-credit style programs, the new government has reintroduced direct job creation programs particularly aimed at disadvantaged groups such as women, natives, and the handicapped.

Recent events

a) Federal manpower strategy

- . In June 1980, the Minister of Employment and Immigration announced a new federal employment strategy totalling \$137 million to create jobs in areas of high unemployment. The approach differed somewhat from that of the previous year. The federal strategy was one of direct job creation programs rather than tax-credit style schemes. Ontario regarded two of the new initiatives, the Canada Community Services Program, and the Canada Community Development Program, as potentially overlapping existing programs funded by Community and Social Services. In response, the federal government indicated its intent to avoid duplication where possible. Within the federal employment strategy, three identified groups: native peoples, the handicapped and women, have been targeted to receive special consideration. Federal-Provincial Manpower Needs Sub-Committees have been established focussing on these groups and on youth to harmonize strategies and thus to avoid duplication of programs.

b) Labour adjustment

- . Automobile layoffs were the target of an April 1980 federal announcement to deal with the unemployment situation in Windsor which included:
 - an extended regional benefits package triggered by an unemployment rate exceeding 11.5%. Under this plan, unemployment insurance contributing weeks were lowered from 20 to 10 for eligibility for 42 weeks of benefits;
 - use of the emergency response feature of the Canada Works Program to create additional jobs in the Windsor area; and
 - an increased allocation for Windsor under the Summer Youth Employment Program.

c) CEIC Task Force on Labour Market Development

- In 1980, the Minister of Employment and Immigration appointed a Task Force to study employment requirements in the 1980's. The Task Force is expected to report to Cabinet in the summer of 1981. It will make recommendations in areas such as training, manpower mobility and the issue of jurisdiction over manpower. The recommendations are likely to suggest which level of government is best able to deliver certain programs and services and where federal funds are best directed to complement provincial efforts in manpower and training.

d) Unemployment Insurance

- The federal government established a Task Force on Unemployment Insurance to analyse the impact of the program on Canadian society and identify options for change. The Task Force was expected to report in the spring of 1981; however, there are indications that the Task Force has been geared down and the federal government is reluctant to have it report at this time. Its recommendations are likely to initiate federal-provincial discussion as well as public debate on proposed changes to the legislation.

e) Training

- Federal-Provincial Training Agreements expired in April 1980. The federal government has asked for a one year extension of the agreements virtually unchanged. The Province has agreed to the extension. In addition, legislation to amend the Adult Occupational Training Act was tabled in Parliament. Bill C-23 would enable the federal government to establish training centres which would bypass provincial institutions. This would be a significant change and not a positive one from a provincial perspective. Pending the report of the Labour Market Development Task Force, it is expected that discussions will begin in order that federal and provincial objectives can be somewhat aligned under new legislation.

f) Special industry and labour adjustment program

- In January 1981, the Ministers of Employment and Immigration, Industry Trade and Commerce, and Labour announced a three year \$350 million program to promote industrial restructuring and labour adjustment. Within that program, new manpower initiatives such as increased training allowances, enhanced mobility assistance, a portable wage subsidy program and a community employment program were initiated. Also included were indications of changes to the Critical Trade Skills Training Program and the Canada Labour Code.

- The federal government in consultation with the provinces will determine which communities will be eligible for assistance. There will have to be a matching of the provincial employment adjustment strategy, Ontario's training programs, and BILD initiatives with the federal program.

Emerging Issues in 1981

- Federal-provincial training agreements will expire in the spring of 1982. Negotiations for a new generation of agreements are expected to begin in the summer of 1981. The federal government has made it clear that it intends to redirect present training programming to meet anticipated needs such as the provision of labour force mobility through national standards and skill training for occupations with critical shortages, without incurring additional expense. Few federal goals coincide with provincial goals. As a result, the provinces have been discussing the establishment of a provincial secretariat to develop a common provincial approach to new agreements on training. An interprovincial meeting of Ministers is scheduled for the summer of 1981 to develop an interprovincial strategy.
- The Board of Industrial Leadership and Development announced a series of training goals which will require federal-provincial consultation and cooperation. One of the top priorities identified by BILD is a greatly increased training effort by industry. In the absence of a commitment by industry, Ontario will propose that the federal government legislate mandatory measures to require investment in training to strengthen existing federal and provincial training incentives to small- and medium-sized businesses.

SOCIAL SERVICES

Issues

- . The chance of major reform, realignment or block funding of social services (the Canada Assistance Plan), an option during the mid-1970s, is now remote. Instead the struggle will be to sustain even the current level of federal financing for CAP and Vocational Rehabilitation of Disabled Persons (VRDP) as Ottawa looks for savings in its social development envelope.

Recent Events

- . Since the social services review collapsed in 1978, Ontario strategy has been to pursue incremental change within the existing system; hence to capitalize on funding under CAP/VRDP and to rationalize services. Yet per capita spending in Ontario (\$16) was lower than the national average (\$22) and other provinces (Quebec \$30). This has occurred because of rigid CAP eligibility criteria for cost-sharing and Ontario's interest in block funding as a more immediate objective than bringing its programs into line with federal CAP criteria. Recently, Ontario has attempted to improve its situation to enhance its base for any future discussions on block funding or a possible CAP/VRDP merger with EPF.
- . In 1980, Ontario renewed the VRDP and Young Offenders Agreements with the federal government for one year. Legal aid, services to developmentally handicapped, non-wards children and part-time work incentives became shareable under CAP. Ontario was unsuccessful in bringing home care for the elderly (non-residential/community), full-time work incentives for longer term welfare recipients or several smaller community oriented programs under CAP.
- . Ontario continued to pursue with Employment and Immigration Canada the possible transfer of "unemployed employable people" from provincial/municipal responsibility to federal responsibility. The proposal is based on federal responsibility for the economy, unemployment (UI) and vocational retraining. This would reduce by \$76M the CAP funds (cost shared) devoted to this program.
- . The federal government sponsored a national conference on pensions March 31. There was general skepticism from provinces regarding the purpose of the conference and it could signal a federal entry into the pensions area as the last plank of Liberal policy for national social security. There has been perfunctory federal-provincial consultation. Except for Saskatchewan, whose Minister of Labour addressed the conference, all provinces participated at the officials level. The federal government has proposed private federal-provincial discussions following the conference later in the summer.

Emerging Issues in 1981

a) Fiscal restraint/EPF/negotiations

- Of greatest concern will be the potential impact of federal fiscal constraints on social services and income security. No decision has been made by the federal government regarding how and where in the social services envelope savings will be achieved. The Parliamentary Task Force on the Federal-Provincial Fiscal Arrangements is currently examining Fiscal Arrangements, EPF and CAP/VRDP. Implications for CAP/VRDP are unclear but face spending control. CAP/VRDP will be drawn into the discussions in 1982 on fiscal agreements and Established Programs Financing (EPF) rather than being handled outside the forum as in the past. It remains unclear whether CAP/VRDP would be folded into EPF, or remain as a traditional cost-sharing arrangement. The latter would be preferable to a highly conditional block fund.

b) Federal-Provincial review of CAP/VRDP

- A federal-provincial task force is reviewing CAP and VRDP to identify changes that would provide greater flexibility to the provinces and the territories in designing and operating their programs. Ontario believes there is some room for flexibility, and wishes to ensure eligibility criteria will not be tightened. The province intends to pursue administrative flexibility (VRDP) and cost-sharing not fully utilized for handicapped children, the learning disabled, and home support for the elderly. A federal-provincial meeting of Deputy Ministers will consider the final report June 11, to evaluate the degree of consensus before a federal-provincial meeting of Ministers.

c) Pension Reform

- Federal initiatives on pension reform (CPP/QPP) are anticipated in 1981. Finance Ministers will consider a report on funding CPP/QPP at their next meeting. The federal Minister of National Health and Welfare has proposed a cooperative initiative during the International Year of the Disabled, suggesting broader benefits under CPP/QPP as the focus. The federal government (NHW/Finance) will develop a set of proposals for provincial consideration. No date is set. The federal Minister is looking for a "quick fix" in disability benefits from within the existing pension scheme. Provinces have agreed to consider federal proposals.

- . The report of the Ontario Royal Commission on Pensions was released in March. The Government has referred it to a legislative select committee. The initial Ontario position, released by the Treasurer April 23, 1981, has found greater sympathy with federal counterparts, particularly in Finance, than originally anticipated. Finance appears to have the upper hand at the federal level.

4. FINANCE AND THE ECONOMY

FINANCE AND THE ECONOMY

Issues

- In recent years, the capacity of the country to work together as a single economic union has been put to a severe test as a result of massive redistribution of wealth towards oil-rich provinces and the increasing practice of several provinces to set up artificial barriers to protect their respective economic activities.
- Ontario's basic concern is to ensure the strengthening of the Canadian economic union: i.e., that the federal government can provide economic and fiscal leadership to achieve fair and equitable redistribution of wealth across the country, and maintain an adequate fiscal balance between levels of government, allowing them to meet their respective expenditure needs.

Recent Events

a) Constitutional discussions

- In 1980, the main forum in which Ontario pursued its objective of a strengthened economic union was the constitutional discussions between June and September, in the context of the item "powers over the economy." In the end, no agreement could be reached among governments. Although everyone recognized that the principle of economic union should be entrenched in the constitution, fundamental differences remained on the question of enforcement: by courts (Ontario's preference) or by inter-governmental discussion or agreement.
- In October 1980, the federal government introduced its constitutional resolution which, in the Charter of Rights, provides for the right of Canadians to take up residence and to make a living in any province. This reform, aimed at ensuring elimination of barriers affecting interprovincial mobility, goes in the direction of the Ontario position for a strengthened economic union.
- In addition, Ontario has pursued the objective of a strengthened economic union through the cooperative route. A booklet titled Interprovincial Economic Cooperation has been published by the Ministry of Industry and Tourism. A federal-provincial initiative has been pursued for the establishment of a common purchasing arrangement in the health products area.

b) Economic Consultation

- . At the Premiers' Conference in August 1980, Ontario endorsed a resolution calling for:
 - renewed federal-provincial consultation on fiscal and economic matters; and
 - a joint meeting of Ministers of Finance and Ministers responsible for economic development to discuss means of improving the coordination and harmonization of provincial economic policies and strengthening the operation of the Canadian economic union.
- . Federal and provincial Finance Ministers met in September 1980 and again in December 1980. At their first meeting, the discussions focussed on an exchange of views on the economic and fiscal situation and consultation in preparation for the October federal budget. The same issues were again discussed in December, with a focus this time on the implications of the federal budget's measures.
- . More recently, Premier Davis has written to Prime Minister Trudeau to request that a First Ministers' Conference on the Economy be held before the summer. There has been no such meeting since November 1978. While the Prime Minister has agreed in principle to the meeting, no date has yet been set.

c) Fiscal arrangements

- . Confronted with the needs to reduce its large fiscal deficit and to free more money for economic development projects, the federal government took a number of initiatives in recent months to improve its fiscal situation, by restraining the growth of its transfers to the provinces:
 - in the October budget, it announced that the social affairs envelope, which includes fiscal transfers to the provinces, will not continue in upcoming years to grow as fast as total federal expenditures;
 - in November 1980, it announced the termination of the Community Services Contribution Program (CSCP);
 - in February 1981, Bill C-24 was passed by Parliament excluding Ontario from receiving equalization payments, in spite of the fact that under the present arrangements the Province was entitled to be a recipient.

- . At their meeting in December 1980, Finance Ministers discussed the question of the renewal of the federal-provincial fiscal arrangements for the 1982-1987 period. All provincial Ministers expressed their concern at the federal government's intention to reduce its fiscal transfers obligations. The federal Minister promised that a federal position would be forthcoming in early 1981.
- . Instead of announcing its position, the federal government announced in February 1981 the establishment of a Parliamentary Task Force on Federal-Provincial Fiscal Arrangements due to report by June 26, 1981. This is the first time that the federal government has asked a parliamentary committee to look at the issue of fiscal arrangements before it has begun active negotiations with the provinces.
- . In the April 21, 1981 Speech from the Throne, the Government of Ontario indicated its opposition to a reduction of federal contributions to health, education and social services joint programs. *

Emerging Issues in 1981

a) Fiscal arrangements

- . The negotiation of a new set of federal-provincial fiscal arrangements for the 1982-1987 period will be a top priority for the rest of 1981. The federal government's dilemma in establishing its position appears to be two-fold:
 - to deal with its fiscal transfer obligations and at the same time cope with a large budgetary deficit, it must achieve a better access to revenues from oil and gas production. It is therefore unlikely that it will be able to come up with a solid position until a new agreement with the producing provinces on oil pricing and revenue sharing has been achieved. In this context, the establishment of the Parliamentary Task Force on Fiscal Arrangements appears to be meant as a device to gain time, but also to build up support for the federal government's strategy.

* The May 19, 1981 Budget Statement further stated Ontario's refusal to accept the continuation of the equalization program in its present form without a fundamental solution to the problem of regional fiscal disparities.

- while the 1977 fiscal arrangements have met the provinces' need for enlarged fiscal freedom and disentanglement, the federal government contends that it has lost control of the way the money it transfers to the provinces is being spent, and that the growth of its contribution to the financing of the established programs has not been matched by the provinces. In order to maintain its level of contribution, the federal government's quid pro quo may be some form of return to the pre-1977 situation: more visibility and a more stringent set of national criteria.

b) Economic consultations

- . Another issue for 1981 is to ensure that the proposed First Ministers' discussion on the economy will take place on an effective and productive basis. As it appears, consultations at the Finance Ministers' level in 1980 were largely pro forma, carefully avoiding dealing in depth with issues that require solid intergovernmental cooperation. The challenge will be to pursue such economic consultations in an atmosphere that is still impregnated by the divisiveness of the constitutional debate and by strong concerns among the producing provinces regarding federal intentions on oil pricing and recycling.

